SUMMARY PROCEEDINGS
ANNUAL MEETING
1961

INTERNATIONAL
MONETARY FUND

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INTERNATIONAL MONETARY FUND

SUMMARY PROCEEDINGS

OF THE SIXTEENTH ANNUAL MEETING

OF THE BOARD OF GOVERNORS

SEPTEMBER 1961

WASHINGTON, D. C.

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[1] Report II dealt with the business of the Board of Governors of the Bank and the IDA.

[2] Report IV dealt with the business of the Board of Governors of the IFC.

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INTRODUCTORY NOTE

The Sixteenth Annual Meeting of the Board of Governors of the International Monetary Fund was held in Vienna, from September 18 through September 22, 1961, under the Chairmanship of the Honorable Sunthorn Hongladarom, Governor for Thailand. 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.

These Summary Proceedings of the Fund include the resolutions adopted by the Board of Governors, reports and recommendations of the Procedures Committees, and selected addresses.

ROMAN L. HORNE
Secretary
International Monetary Fund

Washington, D. C.
October 24, 1961

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ADDRESS BY THE PRESIDENT OF THE AUSTRIAN REPUBLIC[1]

Dr. Adolf Schärf

It gives me great pleasure to welcome the Governors of the International Bank for Reconstruction and Development, the International Monetary Fund, the International Finance Corporation, and the International Development Association, on behalf of the Austrian Republic.

The Austrians consider it a great honor and privilege to have had their capital chosen as the location for this year's Assembly. I hope that your consultations will lead to the desired results and that all participants will enjoy their stay. Rest assured that everything will be done to facilitate your work and to make the time you spend in Vienna profitable and pleasant.

The assembly of the World Bank and its affiliated institutions and the Monetary Fund constitute the greatest concentration of knowledge and experience in the field of finance. In your capacity, as heads of ministries of finance and central banks, and as international bankers, you continually make decisions which not only determine the direction and speed of economic development in a large part of the world, but affect the personal destinies of millions of people.

The realization that close cooperation between large and small countries is the best way to avoid economic setbacks and depressions led to the creation of the International Bank and the International Monetary Fund. It did so at a time when the Second World War was still demanding its daily sacrifice in human lives and causing destruction in all parts of the world.

[1] Delivered at the Opening Joint Session, September 18, 1961.

From the very beginning, Austria has learnt to appreciate the value of the kind of international cooperation embodied in the Articles of the Bretton Woods Agreements. Our little country had suffered severely from the international crises which afflicted the world, particularly the one of 1929. When the Austrian Republic was resurrected in 1945, we realized that the founding of the International Bank and the International Monetary Fund would open up a new era of cooperation between large and small countries in the monetary field, a cooperation designed, amongst other objectives, to avoid the recurrence of the type of economic crisis humanity had suffered from for generations.

For me the significance of the World Bank and the Monetary Fund lies mainly in the refutation their activities give to the old assertion that people are incapable of learning the lessons of history. The German professor and economist, Nöll von der Nahmer, has written the following on the economic crisis between the two World Wars: "It is very depressing to find that the world crisis and world inflation could have been avoided or at least attenuated in its effects and shortened in its duration, had appropriate countermeasures been taken. Since then, the science of economics has widened in scope and deepened in perception. We have at our disposal today a whole arsenal of weapons to fight economic depressions." May I add, that in the hands of the International Bank and the International Monetary Fund these weapons have proved to be extraordinarily effective.

The economic development of Austria in the postwar years gives a good example of the value of international financial assistance. Those of you who visited this country 15 years ago and who see it again today will readily notice the difference. In 1946 little more than ash and rubble were left of the industrial centers. In many cases, the workmen and employees cleared the sites on their own initiative and set the few remaining machines in motion. Step by step the capacities for production were built up which now supply the population with their current needs and assure the financial independence of the country.

The credit for this goes in the first place to the Austrian people. Without the self-discipline and the spirit of sacrifice with which

they assumed the task of reconstruction and put an end to the postwar inflation, little could have been achieved. We are well aware, however, that the process of recovery, a process which transformed a country ravaged by war, with a hungry population and practically insuperable balance of payment problems, into a going concern, could never have been accomplished in so short a time, had we not received assistance under the Marshall Plan and, in a later stage, from the World Bank. Austria considers herself deeply indebted to the international financial institutions. The full release of the Austrian 18 per cent capital quota of the World Bank, the support given to the increase in the Bank's capital two years ago, and the acquisition of membership in the International Development Association, are tokens of response to this assistance. Austria is looking forward to many more years of close cooperation with these international organizations. She is well aware that there is no better way to serve their objectives than to keep her own financial house in order.

It is not only the economists who have learnt the lesson of history. Permit me to say with due respect that neither the assistance received under the Marshall Plan nor the World Bank loans would have brought the currency and economy of Austria to their present positions of strength, had not the domestic policies followed by the various factions in the country been guided by the desire for political and social peace and based on mutual understanding and compromise.

Abandoned by the rest of the world and torn by internal strife, Austria was in a very difficult situation between the two wars. The passions of opposing groups in that time reached such a pitch that civil war broke out. The Austrians are determined not to allow such a situation to recur. They know that they can only be helped if they learn how to help themselves, that is, if they are united and prepared to take the destinies of their country into their own hands.

In international relations, economic cooperation is just as dependent on political unity as on the domestic level. Proof of this can be found in the success of the international financial institutions. I congratulate the World Bank, the Monetary Fund,

the Finance Corporation, and the Development Association on their achievements and expect from them increasing contributions to the welfare of mankind. It is your task, gentlemen, to adapt the principles and methods which have been evolved for this purpose to the ever-changing conditions in the world.

Finally, I would like to venture the opinion that nothing of all that happens right now in the field of finance the world over can be more important than what you are doing at this present moment. You have chosen international cooperation as a basis for dealing with the economic problems which afflict humanity. I do not doubt that you will find the proper solution. In this spirit I wish the Assembly full success and all of you a pleasant stay in Austria.

OPENING ADDRESS BY THE CHAIRMAN OF THE BOARDS OF GOVERNORS, THE GOVERNOR FOR THAILAND[1]

Sunthorn Hongladarom

We are gathered here in this glorious place of great and time-honored historical background to participate in the Annual Meetings of the International Bank for Reconstruction and Development, the International Monetary Fund, the International Finance Corporation (IFC), and the first Annual Meeting of our new sister institution, the International Development Association (IDA). As Chairman, I would like first of all to welcome our distinguished Governors, Delegates, and guests, and to extend our warmest greetings to our new members—Laos, Nepal, New Zealand, Nigeria, and Portugal. I am very happy, and when I say this, I think I am voicing the sentiments of all of us here, that Mr. Black has fully recovered from his illness and is back with us again looking as vigorous and sagacious as ever.

It is also my privilege and my most pleasant duty to express on behalf of all the visiting Governors and Delegates our deep thanks and appreciation for the great trouble and efforts which have been put into the arrangements to welcome and accommodate us in this beautiful city of Vienna—world-famous for its cultural and intellectual achievement. As we are all aware, we have some very important matters to discuss, the outcome of which will have far-reaching effects on the future economic and financial stability of many nations, large and small. Events which have greatly affected the history of European nations in the past have taken place here. It is most fitting, therefore, and perhaps even prophetic, that the 1961 joint Annual Meetings of our four sister institutions are being held in this historic city.

[1] September 18, 1961.

As their Annual Reports clearly show, the Bank, the Fund, IFC, and IDA—the last within the short space of its life—have achieved another year of highly successful operation. In truth, such height of achievement could only be reached, year after year, by hard-working men and women and their inspiring and enlightened leaders, collectively dedicated to the exacting task and heavy responsibility of carrying out the principles and objectives of international economic cooperation—in the spirit of Bretton Woods—for the promotion of world prosperity and welfare.

It is unnecessary for me to repeat here the high purposes of the four institutions. But let me recall that, with the adoption of the Bretton Woods Agreements, we entered in fact upon a long and arduous campaign, in which we have since been engaged on many fronts. We have made a good start and have taken steady steps forward, which justifies some optimism over the possibilities for further advances in the future. But even after 15 years of our collective efforts, it would be unrealistic to say more than that. Certainly, large-scale efforts are still required, if we are to avoid setbacks and reversals from the progress already achieved, and if we are to approach more closely the realization of a widely shared world prosperity. Our fellow world citizens who ask themselves, "Where is my next meal coming from?" still vastly outnumber by several hundred times those who are able to ask themselves this question, "What new motorcar shall I buy next year?"

There are some developments, of course, in which we may all take some measure of satisfaction. The continued expansion of world trade, in which most of our countries have participated to some extent, has brought widespread benefits. In particular, the rapid recovery and economic growth of Western Europe have created an expanded market for the rest of the world; it has facilitated a larger European outflow of foreign investment and assistance; and it has enabled European currencies to play a larger part in the foreign exchange transactions of the Fund.

This strengthening of European economies has also, in recent years, greatly benefited the operations of the World Bank, which has continued to draw an important portion of its financial resources

from Europe. The Bank itself, I am glad to see, is carrying on its lending activities with undiminished vigor and greater vision and has now reached a loan commitment total approaching the $6 billion mark. We see the fruits of its work in many vital projects around the globe, giving brighter hope and promising a better future for millions of people throughout the world.

The Bank is performing an invaluable service, in mobilizing large investment funds, and in putting them to work where they are badly needed. In addition, Bank missions have continued to travel widely, giving counsel and assistance on almost every conceivable kind of development question. My own country's economy has in recent years been the subject of a close and comprehensive study by a team of experts chosen by the Bank. The results have been not only the establishment of new institutions for economic development administration in Thailand, but also a much closer understanding in our country of the problems we face and of the solutions which are available to solve those problems. Needless to say, the combination of the Bank's lending and judicious advisory assistance will continue to be of tremendous value to the Bank's less developed member countries, where there exists an urgent and growing need for expert financial, economic, and technical advice of the kind the Bank can offer, particularly with respect to guidance in the preparation and implementation of development programs.

With increased production in Western Europe and elsewhere, there has been an abatement of inflationary pressures, but in many countries this has also required the use of vigorous fiscal and monetary measures. Such policies have proved their usefulness, again and again, in overcoming balance of payments difficulties, and in establishing the sound economic foundations that are essential for healthy expansion and development.

The International Monetary Fund has given very substantial assistance in these efforts. From the beginning, and often under discouraging and delicate conditions, the Fund has effectively promoted the policies needed to achieve a freer, multilateral system of payments. As conditions for proper use of its resources have improved, we have seen the Fund playing an increasingly

important financial role. Already drawings on the Fund during this year alone have reached more than $2.3 billion, or have more than doubled their previous peak year of 1957. The total of foreign exchange assistance given by the Fund since it began operation in 1947 is now over $7 billion, including approximately $1.1 billion in undrawn portions of stand-by arrangements.

But figures alone do not tell the whole story. I am sure we are all agreed that the Fund has been genuinely helpful to a large number of its members, whose payments difficulties have sprung from a great variety of causes. It has not hesitated to come to the aid of countries, no matter how serious their problems, as long as they were prepared to make strong efforts on their own behalf. The Fund has succeeded in using its resources to advance its purposes of foreign exchange freedom and stability. It has preserved the revolving character of its assets. In transactions ranging from relatively small amounts to the massive $2 billion support for the pound sterling last month, the Fund has combined a conscientious concern for its primary purposes with a sympathetic and efficient response to our problems. Meanwhile, the Fund has continued the process of consultation on foreign exchange matters and related questions, a process which has gained in significance and value under conditions of a more general currency convertibility.

While the work of the Bank and Fund has gone forward, other efforts to aid economic development have been maintained or even increased. Some individual countries are making stronger efforts to provide external assistance, and work continues to go forward on the construction of new international machinery, including the welcome establishment of the Inter-American Development Bank and the continuing evolution of the Development Assistance Group.

I have referred to some of the more encouraging aspects in the present situation, not to indicate a complacent point of view, but to point out some of the lines along which further efforts will be helpful. As I have also inferred, there is still a great deal to be done before the campaign begun at Bretton Woods will have been won. There are some problems which may be outside the jurisdictional reach of our Bretton Woods organizations, but

which nevertheless should continue to challenge us in our official capacities at home. For example, the less developed countries, largely dependent on one or two primary commodities for their foreign exchange earnings, still lack protection against fluctuations in world prices and demand for their major exports. In this connection, the industrially advanced nations could very well pay increasing attention to facilitating the access to their markets not only of these traditional exports but also the products of the nascent industries in developing countries. While the programs maintained by certain countries for the disposal of their surplus agricultural production may provide some support for temporary needs of some countries, it should not be forgotten that they nevertheless adversely affect the foreign trade of those other countries which also export these products. There should also be further opportunities for useful reduction of such obstacles to trade as tariffs and quantitative restrictions on imports. But the main consideration is that our campaign of economic cooperation in its broader aspect—with all it has involved in development finance, in stabilization efforts and freer trade—has not yet succeeded in making enough impact on the real income of enough people, whose numbers continue to grow unabated.

Recognizing this, I think we need constantly to review our strategy and planning, and the adequacy of the resources we are bringing together. I believe all of us have learned from our successes and failures the need to adapt our thinking to experience and to new circumstances and, without losing sight of our basic principles, to adjust our policies accordingly.

Most of us are probably closer together in our attitudes on governmental programing for development than formerly was the case. The inevitability of governmental leadership in this field is now generally acknowledged—nowhere more clearly, perhaps, than in President Kennedy's recent proposal for an "Alliance for Progress" in the Western Hemisphere. On the other hand, I believe government officials are more widely aware than ever of the dangers of excessive expenditure and use of credit for this or any other purposes. It is accepted, too, that private enterprise has an important role in the expansion of our economies, and that it must be accorded proper conditions for its activity.

With the general acceptance of planning for progressive development over a period of years, the concept of long-term foreign aid follows very logically. It is understandable that there should be reluctance in some quarters on this count. But I see it as a clear indication of our continued dedication to the ideal of an orderly and effective development effort which in the final analysis is beneficial both to the donors and the recipients. Whether we like it or not, our fortunes are now much more closely knit together.

I would caution that such international programs of assistance should never neglect the problems of smaller countries in favor of achieving more rapid and spectacular results in a few of the larger ones. Nor should we permit the problems of any one region of the world to preoccupy our attention to the disadvantage of other areas and regions. The broad aims and purposes of the Bretton Woods organizations, and their widely scattered membership—even their informal titles of "World Bank" and "World Fund"—should help us to maintain the global character of our campaign. I think balanced growth is good for a country as well as for the world as a whole.

In the search for larger international financial resources, a great deal of thought has been given to possible methods of strengthening the world payments situation, in such a way as to provide greater protection against sudden large swings in the foreign exchange earnings of individual countries. Such occurrences can have widespread disruptive effect on international trade, unless countries subject to sudden strains on their reserves can be assured of adequate temporary assistance. If it becomes obvious that such support can be immediately available, much of the speculative pressure that sometimes upsets foreign exchange markets can be avoided. In any event, the availability of additional resources for this purpose would give all of us a greater protection against declines in our foreign earnings.

The Executive Directors of the Fund have been discussing a plan for this purpose since early in the year, and it is my understanding that Mr. Per Jacobsson, the Fund's Managing Director, will go into some detail on this important subject later this

morning. It is a topic which has attracted keen interest everywhere, and which will doubtless be discussed at some length in the sessions of the Governors of the Fund.

A few words now should be said about our new sister institution, the International Development Association, which already within the first year of its birth has carried out a series of operations totaling more than $100 million. It should be unnecessary for me to say how much we, who are responsible for economic development in the Bank's less developed countries, welcome the emergence of IDA. Almost all of us are in the position of being asked to find more money for development than can be extracted from our national resources, and also more than we can afford to borrow on conventional terms. For us the emergence of IDA, even on the small experimental scale on which it exists at present, holds out great promise of providing part of the extra finance we need on very liberal terms. However, I understand that while IDA may be softhearted in its lending terms, it will by no means be softheaded in its operating policies.

I think the Executive Directors were extremely wise to draw up the Charter of the Association as a very flexible instrument. The Association should be allowed to develop naturally in accordance with the needs which are found to exist, and I am sure that we can expect the Executive Directors and management to show an enlightened and imaginative approach in the formulation of IDA's operating policies. Certainly, its first development credits have been interesting examples of how to meet development needs in a new way.

We are all aware, of course, that IDA's initial resources are small in relation to the known needs of the less developed countries. I hope and believe that IDA's operations will soon demonstrate the need for much larger funds to be put at its disposal, and I look forward to hearing more on this subject.

Finally, I turn to the International Finance Corporation, for which this has also been an important year. It is a sad duty to say farewell to Mr. Robert L. Garner on his retirement as President of IFC. No one with any knowledge of the World Bank can fail to be aware of the tremendous contribution which Mr. Garner

made to that institution. Many of the Bank's operating practices and its thorough and common-sense dealings are due to his original work. In the last five years, he has had to deal with the first and most difficult years in the life of IFC and he has discharged his task with his usual skill, foresight, and enthusiasm.

Unfortunately, the original Charter of IFC forbade it to make equity investments, a limitation which proved extremely restrictive in practice. Because of this limitation, IFC was obliged to resort to complicated types of security in its investments, a policy which would have been serious enough in developed countries, but was much more so in the countries where IFC was doing its business and where there was little knowledge, if any, of the types of security which IFC was obliged to negotiate. As you all know, as the result of steps taken last year, the past few weeks have finally seen the removal of this limitation. IFC is now at last free to make equity investments in the enterprises it wishes to assist. This should give IFC an additional impetus and widen the scope of its activities, a result which will be most welcome to all of us, the more so, since the Corporation will continue its established policy of not exercising control over, or participating in, the management of any enterprise in which it invests.

We are grateful to Mr. Black for accepting the presidency of IFC for the next two years in spite of the great burdens he already has, and we welcome the appointment of one of his most promising young executives, Mr. Martin M. Rosen, to be the new Executive Vice-President of IFC. We wish both of them great success.

I have spoken of strategy and material resources as important elements of our international economic and financial cooperation. But certain resources of the human spirit are also necessary. We have been especially fortunate in having men of such high ability as Mr. Eugene Black, Mr. Robert Garner, and Mr. Per Jacobsson who, I am most happy to say, has agreed to remain as Managing Director of the Fund for an additional two years. With a friendly interest in each other's problems, a willingness not only to share our views but also to learn and be persuaded, I believe we shall gain from this meeting a renewed sense of common purpose and of greater confidence and hope for the future.

PRESENTATION OF THE SIXTEENTH ANNUAL REPORT[1]

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

Per Jacobsson

May I begin by saying how much pleasure it gives me that this year's Annual Meeting is being held in Vienna. For me, personally, our presence here brings back memories of quite a long time ago—of the time of the League of Nations Reconstruction Scheme for Austria after the First World War. In the summer of 1925 I served as one of the secretaries to Mr. Walter Layton (now Lord Layton) and the late Professor Charles Rist, who had been asked by the League Council to report on the economic position of Austria. These two experts came to the conclusion that Austria was economically viable; but when they made their report at the League of Nations Headquarters in Geneva there were those who thought that they had been too optimistic and dubbed them, after a vaudeville show then running in London, "the co-optimists." This time, however, the optimists proved right. Whatever the vicissitudes through which this country has had to pass, it has undoubtedly established itself as a proud and independent nation, thanks to the fortitude, resilience, and vitality of its people: qualities as deeply rooted in them as those of charm and good humor, which are perhaps more readily apparent.

A year ago, when our Annual Meeting was held in Washington, 68 countries were members of the International Monetary Fund. Today we have 73 members. Thus in the last 12 months 5

[1] September 18, 1961.

new members have joined the Fund—Laos, Nepal, New Zealand, Nigeria, and Portugal. A number of other countries have applied for membership, and it is expected that several will be able to sign the Articles of Agreement in the next few months. The increase and expected increase in membership reflect the emergence in recent years of many new countries, particularly in Africa, all of which we shall be glad to welcome as members of the Fund; but I think it also indicates a growing appreciation of the usefulness of the Fund as a center for consultation and as an institution capable of rendering valuable service to all its members. I would think that the usefulness of the Fund has been made even more evident by the intense activity in the year since our last Annual Meeting. In this year, not only have the financial operations of the Fund been larger than in any other year of the Fund's history, but there has also been very considerable activity in other ways.

It might be of some interest to examine the developments of this last year against the background of the situation at the end of 1959 and early in 1960. Many countries were, of course, faced with difficulties, but world economic activity was generally at a high level and showed signs of increasing. The adoption of external convertibility by a number of European countries at the end of 1958 had clearly been successful, and there had been an almost all-round increase in their gold and foreign exchange reserves. The rise in the general price level had been much less accentuated during 1958 and 1959, holding out the hope that the postwar inflation had at last been contained.

The improvement in the monetary position was underlined by the acceptance early this year of the formal convertibility of their currencies, under Article VIII of the Fund Agreement, by 11 countries: Belgium, France, the Federal Republic of Germany, Ireland, Italy, Luxembourg, the Netherlands, Peru, Saudi Arabia, Sweden, and the United Kingdom. This was greatly to be welcomed, and brought the total number of countries which have accepted the obligations of Article VIII to 21. It is also satisfactory that we have now started regular consultations with Article VIII countries in accordance with the view expressed by the Executive Directors in their decision of June 1 last year.

The growing freedom for the international movement of funds, as a result of the increased convertibility of currencies, and the greater stability of prices—so welcome in themselves—have, however, created new problems which the world has not had to face since the start of the Second World War. Some of these problems were discussed at our last Annual Meeting, others have developed since that time. I believe that much of the disquietude that arose in this new situation was not really justified, but while it lasted it certainly exerted a disturbing influence. In the United States, mainly under the impact of a change in inventories once prices had become more stable, industrial production declined after the spring of 1960 and unemployment increased to the highest percentage since the end of the War. In the spring of this year, however, business activity began to recover, so that the setback proved to have been of short duration. Even so, it was not without influence on the international monetary situation. As was natural in a period of recession, interest rates in the United States declined; and with boom conditions and fairly high interest rates ruling in most European countries, it was to be expected that there would be an outflow of funds from the United States. This outward movement coincided with growing misgivings about the competitive power of the U.S. economy, and also with some apprehensions connected with the election. A temporary flight from currencies into gold led to a steep rise in the price of gold in London, which in turn intensified these fears and gave an impetus to fresh rumors and speculations. All this occurred at a time when there was a remarkable and continuing improvement in the basic position of the U.S. balance of payments. Imports were tending to fall as a result of the decline in business activity, but exports had risen substantially, and there was a trade surplus of more than $4.5 billion for the whole of 1960. Together with the net income from investments and services, the United States had available some $6 billion to meet government expenditure abroad, including military expenditure and official assistance of all kinds. Thus the only uncovered foreign payments were of a capital nature—private long-term investments abroad and the outflow of short-term funds. Toward the end of the year and in the early months of 1961, the net income from trade and services rose further and was sufficient

to cover practically all the long-term private investment abroad at the current rate, in addition to government expenditure abroad.

It was in this improving situation early in February that the President of the United States made his statement that steps would be taken to safeguard the value of the dollar, and that the dollar price of gold would be maintained. In addition, the President declared that "the United States has never made use of its drawing rights under the International Monetary Fund to meet deficits in its balance of payments. If and when appropriate, these rights should and will be exercised within the framework of Fund policies." Assisted by reductions in discount rates in Europe and a determination to avoid any great decline in short-term rates in the United States, the outflow of short-term capital subsided, and, with certain advance repayments from abroad, there was a substantial improvement in the over-all balance of payments position of the United States.

The U.S. trade balance was helped by the strong boom which continued in most industrial countries in Europe, as well as in Japan. Compared with 1959, these countries increased their imports by about 20 per cent in 1960, and this was sufficient to lift the volume of world trade by about 10 per cent. Even such a large increase in European and Japanese imports was not sufficient to raise the general level of raw material prices, which in fact declined slightly over the year. Since many of the less developed countries are dependent on the export of only one or two primary products, even a relatively moderate decline in the prices of these products may create difficulties in their balance of payments; and with only slender reserves to fall back on, many have turned to the Fund for financial assistance. Thus the general weakness in the prices of raw materials and foodstuffs has been reflected in the work of the Fund, which has had an unusually large number of transactions with the less developed countries.

In all, 32 countries from all the continents of the world have received financial assistance from the Fund or have had drawing rights under stand-by arrangements during the period since our last meeting. With the exception of the United Kingdom, all of

these countries can be said to depend largely on the export of primary products. But the balance of payments difficulties which these countries have experienced have not as a rule been due solely to weakness in the prices of their export products, for many have also suffered from excessive internal demand connected with their own credit and fiscal policies. As long as the general level of prices on world markets was still rising, it was possible to expect that in the individual countries a certain amount of credit expansion would be absorbed by rising prices; but now that the general price level is more stable, an expansion of credit beyond the current requirements of the economy is likely to be reflected with little delay in a deficit in the balance of payments. In several cases, the situation has been rendered more difficult by the continued maintenance of complex and discriminatory exchange systems. With the widespread desire to establish or maintain orderly monetary conditions and to simplify exchange systems, Fund assistance has generally been requested in support of fiscal, monetary, or exchange programs and the assistance has been given in the form of stand-by arrangements. In fact, of the 22 countries which have drawn from the Fund during the past year, all but 3 have entered into stand-by arrangements.

It would clearly be impossible for me to discuss in detail all these financial operations of the Fund. I should, however, like to mention briefly a few which have had unusual features and which seem to me to be of particular interest.

First of all, I should like to say a word about the drawing and stand-by arrangement granted to Yugoslavia at the end of last year. A total of $75 million, together with substantial credits from the United States and a number of European countries, was made available to Yugoslavia in support of an extensive exchange reform and program of trade liberalization designed to strengthen the Yugoslav economy and to integrate it more closely with the world economy. The immediate drawing, of the equivalent of $45 million, was made in six currencies—French francs, deutsche mark, Italian lire, Netherlands guilders, sterling, and U.S. dollars. This was the first occasion on which a drawing was divided among a large number of currencies in accordance with the policy of

diversifying the currencies to be used in drawings and concentrating on the currencies of countries with strong payments and reserve positions. The drawing of Italian lire was the first that had been made in that currency.

The operation with Chile in February of this year also contained a number of special features. The financial difficulties created by the earthquakes in May 1960, and uncertain prospects for the world price of copper, led Chile to enter into a stand-by arrangement with the Fund for the equivalent of $75 million in order to help maintain its program of economic stabilization. At the same time, Chile drew Argentine pesos amounting to a further $16 million to be used in partial settlement of the balance accumulated by Argentina under the bilateral trade and payments agreement between the two countries, which had already been terminated in anticipation of the transaction. This was the first time that a Latin American currency had been drawn from the Fund, and the first time that the Fund's resources had been used directly to assist a member to terminate a bilateral arrangement in accordance with an Executive Board decision taken in 1955. In addition, Chile was the first country whose outstanding drawings and available drawing rights under a stand-by arrangement exceeded the equivalent of 100 per cent of its quota.

Four particularly large transactions—with Australia, Brazil, India, and the United Kingdom—have been carried out during the last 5 months. In these transactions, the policy of diversifying the currencies to be drawn and concentrating on the currencies of countries in strong payments and reserve positions was continued.

The transaction with Australia in April, which involved a drawing totaling the equivalent of $175 million in seven currencies and a stand-by arrangement for an additional $100 million, was made in support of the Government's efforts to improve its foreign payments position by means of fiscal, monetary, and other measures. These efforts have been most successful, and I am happy to be able to add that, in view of the improvement in the position,

the Australian authorities canceled the stand-by early this month, after it had been in effect for only 4 months instead of a year.

Under the stand-by arrangement concluded with Brazil in May, the equivalent of $160 million was made available to support a broad financial program of fiscal, credit, trade, and exchange measures, designed to combat inflation and to achieve balance of payments equilibrium within the framework of a free and simplified exchange system. In addition to the stand-by arrangement, the Fund agreed to the rescheduling of the repayment of previous drawings totaling the equivalent of $140 million. The arrangement with the Fund has been supplemented by substantial credits from other sources and by renegotiation of Brazil's medium-term foreign obligations. Rapid advance has been made in unifying the exchange system, and early in July the Brazilian Government transferred to the free market all payments which had previously been effected at preferential rates.

The drawing by India approved in July, which totaled the equivalent of $250 million, was made in six currencies. These included Japanese yen, and this was the first occasion on which a member country had drawn an Asian currency from the Fund. India, whose foreign exchange reserves had fallen to a low level, requested the drawing at a time of seasonal reduction in certain raw material exports, and in order to bridge the time lag in the receipt of development aid under the Third Five Year Plan.

With these large transactions and the many smaller ones, it is clear that the Fund has done much to assist countries, both large and small, which are endeavoring to diversify their production and generally to develop their economies, but which still depend mainly on the export of primary products. Insofar as such development is financed by long-term foreign capital, the actual use of these resources will normally be reflected in a deficit in the current account of the balance of payments. Provided that the other elements of the balance of payments are in equilibrium, this current account deficit would be matched by the external financing, and there would then be no over-all deficit. When this has not been the case, requests have frequently been made to the Fund

for financial assistance, and then the purpose of the assistance granted has been to help the countries concerned to put their over-all situation in balance. The three-to-five-year period for which such assistance has generally been granted has been intended to provide the time needed for the appropriate measures to take effect, and thus to relate the long-term development to the available long-term finance.

Turning now to the transaction with the United Kingdom last month, I would like to describe briefly the background of the international movements of funds which preceded it. I have already referred to the large movements of funds out of the United States last autumn and winter—partly to take advantage of high interest rates in Europe. A part of this flow went to the United Kingdom, where a construction boom and a marked increase in investment in plant and equipment had led to a substantial demand for finance and, consequently, to a high level of interest rates. The inflow of funds from the United States and other centers led to an increase in reserves, in spite of the deteriorating position of the current account of the U.K. balance of payments. The British Government used part of the increase in reserves to repay in advance the drawing made from the Fund in 1956, and also to reduce the Fund's holdings of sterling to 75 per cent of quota.

Following the statement made by the President of the United States in February, the outflow of funds from the United States was sharply reduced, but there was still a movement of funds into a number of countries on the Continent in Europe, especially Germany, due at least in part to continued rumors about the revaluation of the deutsche mark. The revaluation of the deutsche mark and of the Dutch guilder by 5 per cent early in March, however, gave rise to a new crop of rumors about further currency changes. All this proved very damaging to confidence, particularly in sterling, because of the deterioration in the current account of the U.K. balance of payments. The authorities in the countries concerned strongly denied the rumors, but to small avail. It was even believed that the Swiss franc would be revalued, despite the growing deficit in the current account of the Swiss balance of payments, to which the Swiss National Bank drew attention.

In this situation, a number of central banks—members of the Bank for International Settlements in Basle, as well as the Federal Reserve System in the United States—decided to cooperate more closely in the spot and forward exchange markets and in the granting of credits. In this way, substantial resources were provided in aid of sterling, but this in itself did not arrest the outflow of funds from London. Steps were needed to remove the imbalance in the British economy and to obtain the external resources required while the steps were taking effect. Using, inter alia, certain powers proposed in the budget that had been submitted in April and voted in July, the British Government introduced toward the end of July a comprehensive series of fiscal and monetary measures, and certain other policies, designed to eliminate the deficit in the current account of the balance of payments without imposing any restrictions on trade or current payments and, in particular, to restore confidence in sterling at the existing rate of exchange. The measures adopted by the United Kingdom showed the Government's determination to deal with both the immediate situation and developments over a longer period, particularly in relation to future budget expenditure and to the level of costs.

In support of these measures, the United Kingdom drew from the Fund the equivalent of $1.5 billion in nine currencies: U.S. dollars, deutsche mark, French francs, Italian lire, Netherlands guilders, Belgian francs, Japanese yen, Canadian dollars, and Swedish kronor—the first time the last currency had been drawn from the Fund—and, in addition, entered into a stand-by arrangement for the equivalent of a further $500 million. The U.K. authorities announced that, of the amount drawn, the equivalent of some £200 million would be used during the following month or two for repayment of credits. This transaction with the United Kingdom was by far the largest ever entered into by the Fund; and in order to replenish its holdings of the currencies drawn, the Fund sold gold valued at $500 million to the countries concerned, in the proportion of one third of the U.K. drawing in each currency.

The six transactions which I have mentioned are noteworthy for the size of the amounts involved and other special features,

but it would be a false picture of the Fund's activities if it were concluded that the transactions with other countries had not also been of real importance. Perhaps the simplest way for me to indicate the wide range of Fund transactions is to enumerate all the countries which have received financial assistance from the Fund over the last 12 months. Twenty-two countries have drawn from the Fund, namely, Argentina, Australia, Bolivia, Brazil, Ceylon, Chile, Colombia, Ecuador, El Salvador, Honduras, India, Indonesia, Iran, Mexico, Nicaragua, Paraguay, South Africa, Turkey, both the Egyptian and the Syrian Regions of the United Arab Republic, the United Kingdom, and Yugoslavia. In addition, 10 countries—Costa Rica, the Dominican Republic, Guatemala, Haiti, Iceland, Morocco, Peru, Spain, Uruguay, and Venezuela—have had stand-by arrangements in effect during the year, although they have not found it necessary to make use of their drawing facilities. In fact, Spain felt able to cancel its stand-by arrangement with the Fund 5 months before it was due to expire.

It is of interest to note that 18 of the 20 Latin American Republics are included in this list. Over the years, Latin American countries have drawn the equivalent of some $1.1 billion from the Fund. With the equivalent of a further $400 million available under unused stand-by arrangements with 16 of them, it is clear that the Fund has played a significant role in assisting the countries of Latin America in their efforts to overcome financial and economic difficulties.

With all the activity during the past year, drawings on the Fund have totaled the equivalent of nearly $2.5 billion. So large a use of resources has had a marked effect on the Fund's holdings of currencies suitable for transactions at the present time. Even after the replenishment of these holdings by the sale of gold at the time of the drawing by the United Kingdom, the Fund's holdings of several convertible currencies are very low. In addition, it has to be remembered that there are open balances under stand-by arrangements equivalent to almost $1.1 billion.

It had, indeed, become apparent at the end of last year, at the time of the strong outflow of short-term funds from the United

States, that if the Fund were faced with substantial drawings by a number of countries with large quotas, its available holdings of convertible currencies would in all probability be inadequate. This has been borne out by the experience of the last few months. The Fund can, of course, make use of its gold holdings, but these are not necessarily revolving, and once they have been used for the replenishment of currency holdings they may not readily be restored by repurchases in gold. Therefore, the Fund should generally be careful in the use of its gold and should take into account other possibilities for replenishing its currency holdings, for instance, by the borrowing of particular currencies under Article VII of the Fund Agreement.

However, borrowing of currencies is not a method of replenishment that can suddenly be improvised. For this and other reasons, the whole complex of problems connected with such borrowing needs to be closely examined and brought to an effective solution. Consideration of these problems should be set against the wider background of the international monetary system. In the vivid discussions on the merits and demerits of the present system which have taken place in recent years and months, attention has largely been devoted to the tensions which may result from the international flow of funds in a world of convertible currencies. As you know, a number of suggestions have been put forward advocating more or less radical changes in the existing monetary arrangements. It has been valuable that these matters have been so vigorously discussed, and the first question we have to ask ourselves is whether the present system can be regarded as operating in a manner sufficiently satisfactory to be worth maintaining. If that question is answered in the affirmative, then we must consider whether any particular measures should be taken to strengthen the existing institutional arrangements so as to provide sufficient safeguards to meet any dangerous tensions that may arise.

On the whole, I believe the system has worked well. It would indeed be difficult to conclude otherwise in the light of the great gains that have been made in recent years. In the purely monetary sphere, external convertibility has been established for a broad

range of currencies; and with the better distribution of reserves, there is an increasing measure of freedom for capital movements. There has been a parallel development in the ever-growing liberalization of trade and, under conditions of relatively stable prices, international trade has been increasing at an annual rate of about 4 per cent in recent years, reflecting by and large a corresponding rate of growth in world production. These are no mean achievements.

But in spite of these achievements there have been periods of tension and unease. I do not think that the movements of short-term funds from one country to another have impaired the financing of trade or the flow of goods, but it is largely the fears that these movements have aroused that have led to the questioning of the soundness of our present system. In some quarters, doubts have been expressed whether the system under which countries hold part of their international reserves in currencies (which is known as "the gold exchange standard") will work satisfactorily in the longer run, and whether this system might not break down as it did in the interwar period. I do not think we need draw that conclusion, for it is important to remember that the currency failures which occurred in the early 1930's were caused not by inflation, but by widespread deflation—by a fall in prices which made itself felt first in the United States and then in Europe. I am sure there will be no similar deflation now, for there has been such a change in the objectives of the authorities that sufficient measures would surely be taken to prevent such a calamity, if it seemed to be threatening. Secondly, in the 1930's the exchange reserves of many of the European countries had been acquired by large-scale short-term borrowing, and they melted away when the short-term loans were not renewed; today, most countries are the true owners of their exchange holdings. A third difference is that the International Monetary Fund today stands behind the nations' reserves, supplementing them within the framework of its principles and practices and working at all times to promote international monetary consultation and collaboration. There was no similar international agency in the interwar period.

Today two currencies, the U.S. dollar and sterling, are the main reserve currencies. There is no doubt in my mind that the authorities in the United States and the United Kingdom are determined to pursue policies which will ensure confidence in the stability of their currencies. Of the outstanding short-term U.S. liabilities, about two thirds are in the hands of foreign central banks and governments, and the remainder is largely held by commercial banks and business firms. For sterling, the proportion is very much the same. There are thus substantial amounts of these currencies in private hands, and with convertibility, liquid resources owned by business firms and banks can now, with little or no difficulty, be shifted from one country to another. There is indeed no lack of international liquidity in private hands, but for this very reason it is important that there should be adequate resources in official hands to meet the possible impact of international movements of private funds.

As indicated in the Report of the Executive Directors before you, the Fund has been studying in the course of this year a broad range of problems, some of general import and some of a more detailed technical, legal, or institutional character connected with this situation. It is possible to summarize the main issues that have been considered in the form of three questions. To begin with, what are the payments difficulties for which the Fund's resources may be made available under its Articles of Agreement? Secondly, how can the Fund best use its resources to meet these difficulties? And, finally, what resources are required to meet the difficulties, and are the Fund's available resources adequate to do so?

On the first question, the Executive Directors have discussed the extent to which the Fund's resources may be used for helping to meet those deficits in the balance of payments of members that go beyond the current account and are attributable, in whole or in part, to capital transfers. From a purely practical point of view, there is of course great difficulty in separating current and capital payments under a system of convertible currencies. After a thorough examination of the various aspects of the problem, the Executive Directors have clarified the understanding of the

Articles of Agreement, and in that way eliminated any doubt, which had not already been dissipated by the practice of the Fund, that the Fund's resources can be used for capital transfers, in accordance with Article VI and the other provisions of the Articles. If a country facing an outflow of capital were to turn to the Fund for assistance, the test to be applied by the Fund would be in accordance with its accepted principles, i.e., that appropriate measures were being taken so that the disequilibrating capital outflow would be arrested and that assistance provided by the Fund would be repaid within a maximum period of three to five years.

The answer to the second question—how the Fund can best use its resources—must take into account the strengthening of the current position and reserves of several member countries and the increased number which have accepted the obligations of Article VIII. This has made possible the use of a much wider range of currencies held by the Fund, thus increasing the volume of its usable resources. The Fund has therefore sought to diversify the use of its currency holdings in such a manner as to ensure that transactions with the Fund, and their repayment, will be conducted in those currencies which will be most helpful to the world payments position. In pursuing this objective, the Fund has been guided increasingly by the principle that drawings should be made in the currencies of those countries that have a strong payments and reserve position, while it is to be hoped that repayments will generally be made in those currencies that can be strengthened by their use in this way. There are a number of technical and legal problems to be faced in evolving a satisfactory program for the use of a wider range of currencies in Fund transactions and repayments. Some have already been resolved, others will need further attention. A measure of the success already achieved is shown by the fact that during the last year drawings have been made in 11 different currencies.

As a result of sales of their currencies by the Fund, a number of countries have now acquired increased drawing rights because the Fund's holdings of their currencies have been reduced considerably below 75 per cent of quota. The Fund must always

take account of the fact that, should there be a reversal in the payments position, the existence of these increased drawing rights could give rise to appreciable demands on the resources of the Fund.

I come now to the third question—the adequacy of the Fund's resources. It will be apparent from what I have said about the Fund's evolving policies on the currencies that should be drawn that the answer to this question cannot be settled simply by adding up the Fund's holdings of gold and currencies, or even gold and convertible currencies, at any particular time. What is important is to ensure that the Fund has enough of those currencies which it would be appropriate to use at any particular time, given the economic conditions of that time and the purposes for which it is appropriate to use the Fund's resources.

I have already referred to the fact that the intense activity over the last year has reduced the Fund's holdings of certain currencies to a very low level, despite the recent sale of gold. But this is more than a transitory problem confined to the present circumstances, and is more than just the question of the Fund's own liquidity. It is vital to consolidate and defend the system of convertibility built up over the last few years, and to avoid the risk of any relapse into restrictions and currency disorder. In order that the Fund may play its part in this effort and meet the expectations of its members, it must be in a position to provide resources that are adequate beyond doubt to meet any needs that may arise. And in a world in which market fears and expectations play a large role, resources—national and international combined—must not only be adequate to meet demands that may be made on them, but must also be large enough to convince the public that they are adequate to defend currencies from ill-advised speculation. A substantial reduction in the Fund's holdings of major international currencies could itself become a disturbing factor, long before the point of exhaustion is reached, unless there existed satisfactory arrangements for replenishing these holdings.

All these questions have to be evaluated in the light of the swift changes in the balance of international payments that have

occurred in recent years. In the circumstances, I cannot conclude that the composition and size of the Fund's resources are adequate to support a healthy international financial structure without further strengthening. The need for additional resources might be remedied by an increase in particular quotas, but in present circumstances I believe it can be handled more acceptably by firm borrowing arrangements. These would be concluded, in particular, with the main industrial countries, because of the major role they play in the swings in international trade and payments. This does not mean that other countries would have no interest in the conclusion of such arrangements, for the maintenance of a stable and convertible exchange system is as important to them as it is to the industrial countries.

Some of the problems arising from the use to be made of the Fund's borrowing powers under Article VII of the Fund Agreement have already been discussed in general terms by the Executive Directors, but many aspects still remain to be considered. An essential step in the conclusion of any borrowing plan is for the authorities in the individual countries to obtain the power to lend to the Fund if they do not already possess it. However, in my opinion, it would not be sufficient to leave the actual borrowing transaction to an ad hoc agreement between the Fund and the lending country under these powers. There is great merit in an assurance that additional resources are available to the Fund for its transactions. The ready availability of resources is in itself a contribution to stability and strength. It has time and again been the experience of the Fund that assurance to a member that it has access to the resources of the Fund under the provisions of a stand-by arrangement is in itself a stabilizing factor of great importance; often it has not been necessary for the member to use all, or indeed any, of the drawing rights thus assured. There is good reason to believe that the same sort of benefit would be obtained from credit facilities granted to the Fund.

At the same time, adequate provision would have to be made for general safeguards for the lending members. There would, of course, be consultation between the Fund and the prospective

lender, and it should be part of the arrangement that the Fund would not borrow from a member country unless the country's payments and reserve position permitted this. Moreover, the arrangement would be such that any member that had lent its currency to the Fund would be able to obtain repayment readily if its own payments position changed. There would, of course, be no question of any weakening of the principles that the Fund has worked out for the appropriate use of its resources. These have stood the test of time in a great variety of circumstances, and we know that they are endorsed by the members of the Fund.

I believe that it should not be difficult to arrive at an agreement that will give due weight to the various aspects of borrowing, and thus to establish a workable system which would be beneficial and acceptable to all members of the Fund. There are, however, a number of decisions of policy still to be taken.

As is said in the Annual Report of the Executive Directors, the approach to the increase in the Fund's resources by means of borrowing "looks beyond the immediate needs and endeavors to equip the Fund to handle flexibly the many and varied situations that may arise under a system of freely convertible currencies."

When we consider the Fund's role in the monetary system, it is valuable to keep in mind the two complementary aspects of the Fund's financial activities: on the one hand, the granting of financial assistance by the Fund to help countries to meet an unbalanced position; on the other hand, the assurance that the country receiving the assistance will be taking the necessary measures to restore a proper balance. For such measures to be effective, it is indispensable that the authorities in the country receiving the assistance must be convinced that the restoration of the balance is in their true interest. As the Duke of Vienna said in "Measure for Measure," the only play of Shakespeare to be set in this City of Vienna: "The satisfaction I would require is likewise your own benefit." It is precisely when this identity of interest is fully realized that the programs which are supported by Fund assistance can be carried out in a spirit of mutual con-

fidence and the desired success achieved. For that result, the countries must feel that stability is essential for their welfare as the only true foundation for sustained growth. In taking this view, they can be encouraged by the evidence that those countries which have persisted in their efforts, and accepted the transitional difficulties of carrying out a stabilization program, have succeeded in staging an impressive rate of growth.

One of the requirements for economic progress is the availability for investment of real resources, and these cannot for any length of time be obtained by inflationary methods of financing. This is an old truth, but it seems that it has to be rediscovered over and over again. To obtain genuine resources requires, of course, effort. At the time when the richer countries are making considerable efforts to provide resources for the aid of the less developed countries, these countries in turn will have to make the maximum effort to mobilize their own resources, and, through stability, create the conditions for domestic and foreign resources to be used in the most effective manner. In creating these conditions, a great many countries have had the support of the Fund, and there can be no doubt that the Fund has thus contributed to the growth in production and trade that has occurred during the last few years.

All this seems clear enough, but I believe it is not convincing to all minds. While I think that nobody will want to maintain that sustained growth can be based on monetary disorder, there seems not seldom to be a lingering fear that stability will mean reduced economic activity, and even stagnation. It is true, of course, that stability is not enough, for the real national objective should be economic growth. Economic growth can be compared with the construction of a good house, with stability as its foundations. A good house can only be erected on a solid foundation. Preparing the foundation, however, is not sufficient. There must be further initiative and activity, and the necessary resources must be acquired to complete the building. In some countries, it seems that the restoration of monetary stability has almost by itself led to a resurgence of activity, and soon produced the savings to finance it. But this is not always the case; in many

countries, special domestic efforts are needed, and for these efforts to be effective they have often to be supplemented by international assistance, technical and financial. To introduce monetary stability is often only the beginning of the efforts needed to achieve growth. While the subsequent efforts largely fall outside the sphere of Fund activities, the Fund does not underrate their importance and, insofar as it can, is anxious to assist these efforts in every possible way.

Broadly speaking, the financial assistance given by the Fund helps individual countries to keep in line with general monetary trends in the world economy, while avoiding measures that would be disturbing to international trade. This is an important task, but it does not exhaust the scope of monetary action. Our monetary system has to serve an expanding economy. It is not suggested that credit measures alone can engender a high rate of growth; the fiscal and economic structure and the whole range of social and market practices are of vital importance. It may, for instance, be important to remove maladjustments due to mistaken budgetary policies, or in the cost and price structure, which would retard growth. The conditions under which foreign trade is carried on are also important—and with the new trading arrangements now being established, particular attention must be paid to these aspects. The Fund in its work is naturally interested in these questions, but pays particular attention to matters of monetary policy.

Under modern conditions, the gold flow does not set fixed limits to the possible expansion of credit or international liquidity. Within each country, the credit volume may be expanded in response to demand; and the monetary authorities can also take positive action to stimulate, and provide the basis for, credit expansion. Since the Second World War, on the whole, the problem has been rather to contain the expansion of credit than to stimulate it. All countries have been more or less involved in this process, but those countries that are responsible for a high proportion of the world's production and trade must necessarily play a major role. They are aware, however, that even they cannot act independently of the general trend, and are therefore

bound to act in cooperation with each other. Sometimes similar, sometimes complementary, policies will have to be pursued according to the ever-changing situation. The methods of cooperation will vary; there will be direct contacts, but there will increasingly be reliance on international institutions.

In Article I of the Articles of Agreement, which sets out the purposes of the Fund, financial assistance by the Fund is only one of the purposes. It is also the objective of the Fund to promote exchange stability and orderly exchange arrangements; to assist in the establishment of a multilateral system of payments; to facilitate the expansion of international trade, and thereby to increase the productive resources of members; and to act as a center of collaboration and consultation. Indeed, without the close contact between the Fund and the competent authorities in member countries, it is difficult to see how any of the purposes of the Fund could be achieved. This has been proved time and again to be the case in the annual consultations with Article XIV countries. Already excellent results have been obtained in the consultations that have been begun with Article VIII countries. Here it is a question of voluntary cooperation, and for that reason I believe that these consultations will be more, and not less, effective. The cooperation has to be inspired by the notion that countries have a common interest as partners in the international monetary system. This system has to be strengthened where it is vulnerable; but the policies pursued must be such that the system plays its proper role in the process of economic expansion. To observe, on the one hand, the necessary monetary discipline and, on the other, to respond to the needs of expansion is no easy task. It raises many problems, but it is my impression that these problems are now being tackled more effectively than ever before, and with greatly increased chances of success.

EULOGIES[1] ON DAG HAMMARSKJOLD, SECRETARY-GENERAL OF THE UNITED NATIONS, DIED SEPTEMBER 18, 1961

Statement by the Chairman of the Boards of Governors

Sunthorn Hongladarom

I know that we all have, with the deepest sorrow, heard of the sudden death yesterday of the Secretary-General of the United Nations, Mr. Dag Hammarskjold. He gave his life in an untiring effort to bring peace and order in one of the troubled areas of the world. His death is a great loss to the United Nations and all it stands for. He was a man of outstanding qualities who fulfilled one of the world's most demanding and often unrewarding tasks with great integrity, skill, and perseverance. He had an unwavering faith in the aims of the United Nations, as expressed in the preamble of its Charter and the promise it holds out for present and future generations of mankind. I quote: "to save succeeding generations from the scourge of war, . . . to reaffirm faith in fundamental human rights, in the dignity and worth of the human person, in the equal rights of men and women and of nations large and small, and . . . to promote social progress and better standards of life in larger freedom, ..."

[1] Session of the IBRD and the IDA, September 19, 1961.

Statement by the President of the International Bank for Reconstruction and Development

Eugene R. Black

The tragedy which occurred yesterday afternoon in Africa darkens all our lives this morning. Dag Hammarskjold was a new kind of diplomat; a man made necessary, indeed, indispensable, by the fearful new dimensions in power politics that have come in our lifetime. He was devoted and dedicated to the task of maintaining a minimum of order where conventional diplomacy had failed, a minimum of order without which there cannot be a minimum of hope in the survival of civilized society. His cause was our cause, yours and mine; and in the days ahead we shall all realize how much we have depended on him.

Dag Hammarskjold was always trying to stake out some ground of agreement among nations on which they could work together to give substance to mankind's hope for fulfillment in a more peaceful and a more tolerant future. He was a modern pioneer, and I know that the best tribute that we can pay to his memory is to redouble our own efforts to strengthen the ground of agreement among the nations represented here, to avoid irrelevant divisions, and to concentrate on pooling our resources and resourcefulness to keep alive people's hope in the ideals that he so tirelessly served.

Statement by the Chairman of the Executive Board and Managing Director of the International Monetary Fund

Per Jacobsson

I first met Dag Hammarskjold at Uppsala, 46 years ago, when I was told he was the brightest boy in his class. Since then, I have met him and worked with him in many different countries and capacities. As Managing Director of the Fund, and also as a countryman and a friend of Dag Hammarskjold, this is a blow

whose significance in international affairs and for me personally is difficult to comprehend. He combined high intelligence, wide experience, natural courage, and absolute integrity of character. It is said that no man is irreplaceable, but I believe one has to make an exception for Dag Hammarskjold.

History will evaluate what he has done and achieved. Here today, I can only add my voice to express the grief and loss that we all feel.

. . . .

The Chairman then proposed that the meeting rise and observe a minute of silence, in order that those present might rededicate themselves to the great task for which Dag Hammarskjold gave his life. The meeting then stood in silence.

DISCUSSION OF THE SIXTEENTH ANNUAL REPORT[1]

Statement by the Governor for Austria

Reinhard Kamitz

Although in the course of the past 12 years it has always been my special pleasure to cross the Atlantic for the meetings of the International Monetary Fund, International Bank for Reconstruction and Development, and International Finance Corporation, and to meet my distinguished friends in Washington and New York, I am very happy that this year's meetings can take place in my home city. Permit me to express the hope that this momentous gathering, which, I dare say, constitutes one of the most important milestones in the international financial field since the days of Bretton Woods, will be held in as pleasant and cheerful an atmosphere as Vienna can provide. My Austrian colleagues and I are proud that you chose Vienna for this year's meetings, and hope that your stay here will be pleasant and successful.

The past year has seen a number of significant improvements in the international monetary field—the most important being the decision by several countries to adopt Article VIII. I trust that in the not too distant future the number of countries which accept the rules under Article VIII will show a further increase, so that we may get nearer our aim, which is a free and unrestricted trade and payments system over as wide a geographical area as possible.

[1] September 20, 1961.

The problem of European economic integration, which over the past several years has been a matter of primary concern to the countries on this side of the Atlantic, has now entered a new phase—characterized by the efforts of the "Six" [European Economic Community] and the "Seven" [European Free Trade Association] to find a common denominator based upon the fundamental principles of the Rome Treaty.

I do not want to belittle the difficulties and obstacles which stand in the way of a solution acceptable and satisfactory to all countries concerned. I would, however, like to express my personal opinion and firm belief that the chances of a lasting success are greatest if the approach taken in order to arrive at European economic integration follows the liberal pattern, which so often in the past has proved its worth. By this I mean that it is essential for the benefit of the insiders as well as of the outsiders that the dismantling of quantitative and other restrictions for the group is not accompanied by an increase in restrictions toward the outside world. I think all member countries of the Fund can welcome efforts for European integration if these conditions are fulfilled.

It is also important to remember that economic integration among sovereign countries can be carried out successfully only if all participants establish and maintain sound monetary and financial conditions. It is no news to monetary experts, bankers, and persons responsible for the financial administration of a country's affairs that a country's economic interests are served best by a stable currency, as only such a currency can provide a valid yardstick for evaluating and determining economically correct investments, which are probably the most essential factor for economic growth. But during my more than eight years' experience as Minister of Finance, I also learned the lesson that we should never tire of repeating this axiom to our politicians, who vote the annual budgets—and it seems they are mainly interested in the expenditure side—in our parliaments.

While stable monetary and financial conditions are thus essential for assuring a country's economic growth, I would go as far

as to say that without them a country cannot successfully participate in a wider multinational economic integration. The positive and heartening proof of this statement is borne out by France's experience of the last three years. The economic reforms undertaken in the fall of 1958 laid a solid basis for France's entry and successful participation in the Common Market. At the same time, the consequences on France's internal economic situation are also evident: the national product expanded rapidly, the balance of payments, which for years impeded growth, improved drastically, and foreign exchange reserves showed a spectacular increase. I think we should bear this example and others in mind when we deal with economic integration. I would just like to point out that Austria had a rather similar experience. In the years immediately following the war, we had rapid inflation, therefore misallocation of resources, and, naturally, tremendous balance of payments deficits. In 1952, we finally succeeded in checking inflation and establishing stable monetary conditions, and in the wake of this stabilization our economic expansion was carried to unprecedented heights, our balance of payments improved, and we could therefore successfully participate in the European integration efforts, which were then carried out within the framework of the Organization for European Economic Cooperation and European Payments Union, i.e., the liberalization of trade and payments. In view of these obvious facts, I found it rather disconcerting that a very distinguished financial newspaper recently suggested that a country which has successfully applied sound economic and financial principles has now made itself a "nuisance." As far as I am concerned, I would strongly endorse an increase in the number of members of this "nuisance club."

When I spoke before of the improvements in the world payments system, I also had in mind the successful cooperation practiced by a number of central banks in conjunction with the Monetary Fund. There is no doubt that this cooperation, which on the one hand is centered about Basle and on the other hand around Washington, can be credited with the avoidance of international financial disturbances which might have arisen, had it not been for the action undertaken through these institutions. As far as the U.S. balance of payments is concerned, I am of the

opinion that the situation is basically sound. This does not mean that I want to belittle the difficulties and problems which are posed by the appearance of substantial U.S. payments deficits during the last three years. But I think one need not feel pessimistic about the present or future strength of the dollar if the U.S. administration continues to adhere to the economic and financial policies which have been eloquently defined by the President.

With gold holdings of about $17.5 billion, the United States as the world's principal banker is still in a very strong position. It is true that short-term liabilities to foreign countries which can theoretically be converted into gold are of about equal size. But, as no individual person would withdraw his deposits from his bank as long as he continued to have confidence in its management, there is no reason for governments and central banks to withdraw their short-term assets in the United States as long as there is certainty that the U.S. Government pursues economic and financial policies which will guarantee the maintenance of the value of these assets. But on the other hand, no gold and foreign exchange reserves are high enough for a country which pursues reckless financial policies leading to inflation and consequently to external deficits.

If, however, a country pursues the right kind of economic and financial policy, and maintains monetary stability, its currency will be valued by other countries. I think it is very important that perhaps for the first time it is now realized that, in pursuing domestic economic aims, the United States also has to pay heed to the external payments situation.

The United Kingdom, which during the past years has been the other large country showing substantial external deficits, has now undertaken a series of monetary and financial corrective measures, which, I hope, will contribute to a rapid improvement in the U.K. balance of payments.

I would now like to comment briefly on the proposals made by the Managing Director of the Fund with regard to an increase in the means available to the Fund for helping its members to over-

come temporary balance of payments disequilibria. May I first say that we can all consider ourselves very fortunate to have over the next couple of years the guidance and wisdom of Per Jacobsson in this and all other matters pertaining to the Fund and I dare say in many other important matters of economics and finance around the free world. There is no better man than he in this field, and I would like to take this opportunity in order to thank him and also congratulate him on the outstanding achievements which the Fund has made under his direction.

The analysis given by the Managing Director in his address is well-founded and convincing. I certainly agree that the question of international liquidity cannot be settled by just adding up and increasing the Fund's holdings of gold and convertible currencies as late as the time of an emergency. His proposal, therefore, that the industrial countries should now pledge certain amounts, which they would make available to the Fund in case of need, and which would only be drawn if these countries were showing balance of payments surpluses at the time of the drawing, certainly seems to be the correct economic approach. It also has one fundamental advantage, which some other ingenious and far-reaching recommendations lack: it is practical, effective, and, in my opinion at least, has a very good chance of being accepted by an overwhelming majority of governments and parliaments.

As the details of Mr. Jacobsson's proposals will have to be worked out during the coming months, I would now like to limit myself to just one comment on an aspect of the problem which seems of fundamental importance to me. The fact that through arrangements, such as those outlined by the Managing Director, the Fund's effective means of action are increased, must under no circumstances be interpreted in the sense that the Fund would in the future be less vigilant over its members' internal financial policies. The Fund's resources can make a contribution in dealing with the symptoms of a country's difficulties. The underlying weaknesses can, however, only be cured by means of correct diagnosis and concomitant internal action. May I be permitted to paraphrase in this connection a quotation used by Per Jacobsson on an earlier occasion. The role of the Fund can in a certain

sense be compared to that of a fire brigade; consequently, the less often call is made upon its services, the better for the world and for all the Fund's members. But as it is reassuring, and in the long run undoubtedly worthwhile, to have a large and very efficient fire brigade—with too many trucks and hoses rather than too few—it is also of vital importance for all countries of the free world to have in the Fund a powerful and efficient institution, which through its own means of action can help in overcoming balance of payments disequilibria of substantial dimensions. But, as we all strive to eliminate conditions which may give rise to fires, and therefore would necessitate the intervention of the fire brigade, we should also strive to eliminate monetary and financial conditions which cause unbearable balance of payments disequilibria and disorders. I am convinced that, under Per Jacobsson's leadership, the Fund will continue to pay utmost heed to these considerations.

I would also like to renew my statement at last year's Annual Meeting, which the Managing Director was good enough to underline in his concluding remarks, that the role of the Fund as a center for monetary and financial cooperation should be further strengthened. Within the framework of the Fund, we may be able to find solutions to many countries' individual problems, which without international cooperation might be very hard to solve.

Statement by the Governor for Argentina

Roberto T. Alemann

This year's Annual Fund Meeting is doubly significant. We will return to our countries with a lasting impression of the beautiful and traditional city of Vienna and of the warm Austrian hospitality, as well as of the constructive approach to the main theme of our discussions. It is indeed encouraging that the question of international liquidity is being focused upon from the standpoint of how to expand the Fund's ability to cope with the disturbing effects of short-term international capital movements without resorting to restrictions.

The advent of convertibility, the elimination of exchange restrictions and discriminations by the principal countries, and the unprecedented growth in their domestic economies and international trade have introduced significant modifications to the world payments situation and have led to the emergence of new problems which now preoccupy the domestic monetary authorities as well as the International Monetary Fund.

For developing countries with an ever-increasing need for additional exchange earnings as well as for foreign capital, the problems of international liquidity are also of fundamental importance. So far, the discussions on these problems have concentrated on the payments relationship between the main developed countries, especially those whose currencies act also as reserve currencies. By and large, the main discussions have centered on the effects on their internal economies and their balance of payments and reserves of the adoption or the failure to adopt certain appropriate corrective measures.

Developing countries are also subject to the disturbing impact arising from temporary fluctuations or from a more permanent maladjustment in the system of world payments. Lack of international liquidity and payments imbalance among the main trading countries affect international markets and reflect adversely upon our level of exchange earnings and on our reserves. From our own standpoint, therefore, we have a keen interest, and we may even say that it is imperative that any changes to be introduced in the present world payments system to reinforce it and to prevent any possible deficiency in international liquidity should be made without damaging the confidence in the principal currencies, particularly those which also act as reserve currencies.

The trend of the last few years toward maintaining and reinforcing widespread convertibility and toward permitting freer access to international capital markets and to other international sources of credit should also be pursued at a faster pace. Any other solution involving the adoption of controls of varied nature may have the elusive benefit of temporarily hiding deficiencies that otherwise would be apparent in the conduct of the domestic

economic problems of developed countries. But this approach will necessarily adversely affect the possibilities of growth of the developing countries and will induce them to adopt countermeasures whose long-run effects on growth are obviously contrary to the best interests of developed as well as developing countries.

International cooperation, if approached with the idea of combining domestic and foreign monetary discipline with assistance to other countries in payments difficulties, will considerably help the solution of present and future problems of international liquidity. The concerted action of the local monetary authorities and the already proven flexible policies of the International Monetary Fund are important and very resourceful instruments of international cooperative action. These instruments have already proven their capacity to adapt themselves to changing circumstances and have only recently begun to bear fruit. Their possibilities for future and more efficient use are therefore quite ample. They should not be considered outmoded or obsolete.

International cooperation has also proven to be a very valuable means of assisting developing countries in solving their problems of growth. Developing countries have gradually come to the realization that fuller participation in schemes of international monetary cooperation involving assistance, consultation, and exchange of opinions better serve their own interest than the adoption of unilateral measures by the developed countries.

In monetary and financial matters, a great deal depends on confidence; hence the overwhelming responsibility of those countries whose currencies act also as reserve currencies. It is their responsibility to create and maintain growing trust in their ability to conduct their own domestic economic affairs and to avoid monetary manipulations of their own currencies, thereby preventing damaging effects on international confidence. Speculation can only benefit very few and can, indeed, inflict a heavy blow on the majority, aside from diverting monetary and financial resources from safe investments to less desirable uses.

But if we are ready to admit that the profound monetary disturbances affecting the world of today may be cured by a sensible

program of monetary cooperation, we should also be aware of the dangers of overindulging ourselves in the merits of this one-sided approach. We should realize that in order to correct the world payments imbalance, it is not enough to eliminate eventual maladjustments in the functioning of the mechanism of international liquidity. Countries like ours, in the process of development, feel very intensely the need to expand exports and to have freer access to international capital markets and look with growing concern on the fact that there is no parallel progress in the solution of purely monetary problems being made in the trade field. Equally effective and speedy steps are not being taken to remove the existing barriers to the sale of their products abroad or for allowing freer access to the international capital markets.

More developed and industrialized countries tend to solve their problems of growth by maintaining undue protection for their marginal domestic production and by keeping to themselves most of their capital resources. Countries in process of development, on the other hand, see their international reserves and payments positions affected by the depressing effects of these hindrances on the volume and prices of their exports as well as by the limitations imposed by these countries on access to their own capital markets by others.

I believe it is fitting in this context to recall here the axiom that there cannot be economic development unless a constant growth of exports and trade is secured. Today a number of developing countries, primarily those of the temperate zone, are still under the influence of insurmountable barriers which limit their exports. Efforts to improve their domestic economies and the conduct of their internal affairs are, therefore, rendered ineffective by the maintenance of trade restrictions by the developed countries which, in turn, affect adversely the world distribution of monetary reserves. Developed countries accumulate reserves to the detriment of developing countries which must, therefore, make continuous and strenuous efforts to strengthen their balance of payments structure and to maintain a level of reserves barely adequate to face normal oscillations in their exchange earnings.

A similar effect on the distribution of international liquidity and reserves arises from measures and restrictions imposed by the more developed countries on their long-term capital investments abroad. Developed countries, especially those which in the not too distant past were so anxious to attract foreign capital, and which derive so many benefits from it, have also a very heavy responsibility for stimulating investments abroad, particularly now that their capacity to generate savings has improved.

This grave situation should be urgently corrected by effective action leading to the immediate reduction and early elimination of those factors largely responsible for the irritating inequality between the standard of living of the most developed nations and that of those countries which are now making strenuous efforts to develop themselves. Governments have the responsibility of acting to solve these problems. Satisfactory formulas now being worked out within the framework of international cooperation should make it possible to expand world markets for trade and to increase the flow of international long-term capital. A more decisive and more responsible attitude by the principal developed countries is, therefore, required, similar to that we have witnessed on other occasions when the world also faced grave problems of international solidarity.

International cooperation leading to the elimination of restrictions on trade and on international long-term lending, as well as to the amelioration of the stimulus given by developed countries to investments in their own economies, should be explored, in order to re-establish a vigorous flow of genuine long-term private capital. Governments should back these arrangements with adequate guarantees in a manner similar to that applied to the monetary field. We may well imagine multilateral action leading to the establishment of a network of reciprocal commitments between countries having different degrees of development, in order to insure or protect long-term investments from certain noncommercial risks.

It should be admitted, however, that despite this discouraging panorama of restrictions to long-term private investments and of erratic movements of short-term capital, which further divert

resources from long-term investments, international official cooperation for long-term lending purposes has shown a very favorable development. In this manner, the relative liquidity position of developing countries vis-à-vis developed countries has tended to improve. The introduction of more favorable policies in the international lending institutions and the creation of the International Development Association and the Inter-American Development Bank have also opened possibilities for long-term lending which before were only reserved to developed countries. The Alliance for Progress recently agreed upon by 20 American nations at Punta del Este constitutes another vivid example of how international cooperation can find formulas for the solution of grave problems of a social and economic nature.

The maintenance of confidence in the reserve currencies, the expansion in the capacity of the Monetary Fund to act in accordance with its present policies, the reinforcement of international cooperation, the elimination of trade restrictions which depress international prices and income of the developing countries, the stimulation of international investments and the expansion of access to the international sources of credit are the essential measures which will tend to solve the problems of international liquidity that may arise as a consequence of the functioning of the gold exchange standard. These solutions will not be lasting if they apply only to the exchange field and omit the adoption in due time of the more fundamental measures indicated in the trade field and in the field of international long-term funds.

Statement by the Governor for the United States

Douglas Dillon

First, let me say how delighted I am to be once again in the gracious and storied city of Vienna. Since my last visit a little more than a year ago, I have seen fresh evidences of growth and change—change that reflects the industry, the imagination, and the initiative of the Austrian people. The stability of the Austrian Government in postwar years, the extent of Austria's remarkable

economic resurgence, the unswerving devotion of the Austrian people to democratic principles—all are features of modern Austria that command our respect. This small nation, this revered cradle of thought and culture, this courageous outpost on the frontiers of freedom, has aroused the admiration of free men everywhere. On behalf of my Government—on behalf of the President of the United States, who recalls with pleasure the warm hospitality he received here last June—I wish to say that we consider Vienna to be a most auspicious setting for the important work upon which we are embarked.

During the past year, the International Monetary Fund, under the distinguished leadership of Per Jacobsson, has again demonstrated its vital importance to world monetary stability and economic growth.

The role of the Fund is being further enhanced at this meeting where we have the privilege of welcoming to our deliberations 10 new countries—the largest increase in a single year's operations since the Fund's inception. It is a particular pleasure for me to welcome to our midst our good friends from Cyprus, Laos, Liberia, Nepal, New Zealand, Nigeria, Portugal, Senegal, Sierra Leone, and Togo.

Since we met a year ago in Washington, $2.4 billion has been drawn from the Fund. A major part of that was the recent drawing by the United Kingdom, but 21 other member countries made drawings totaling more than $900 million. There are also 20 stand-by arrangements in effect, with unused drawing rights totaling $1.2 billion.

Fund assistance in the past year has both strengthened the structure of currency convertibility in the industrialized countries and helped many of the developing countries to adopt or maintain programs of financial and monetary stabilization. The Fund has come to occupy a central position in international monetary affairs, a role I am confident will be of ever-increasing importance to all our member countries in the years ahead.

A few years ago, almost all drawings from the Fund were in dollars. Since the advent of currency convertibility in Western

Europe, however, the Fund has made great progress in using a larger number of the currencies it holds, thus increasing the percentage of drawings in currencies other than U.S. dollars. During the past year, 11 different currencies were drawn from the Fund, and two thirds of the total drawings were in currencies other than the dollar. This is an encouraging development. It has made a reality of the original concept of the Fund as a reserve pool of many currencies for the use of members.

Last year, the Fund's advisory activities continued on a broad scale. Wherever member countries have sought to deal effectively with financial instability—by strengthening their fiscal resources, by controlling money and credit, or by otherwise improving their financial institutions—they have been able to rely on the staff of the Fund for expert and objective advice.

The stabilization programs many members of the Fund have worked out and put into operation, usually with Fund advice, have at times been criticized on the ground that they have supposedly imposed a choice between stagnation and economic growth. I do not believe that this is a correct appraisal of the role played by financial stabilization in economic development. I agree with the opinion expressed by Mr. Jacobsson in his brilliant opening statement: that the aim of a well-designed stabilization program is to eliminate inflation, not only as a source of balance of payments disequilibrium, but also as an obstacle to economic growth. Financial stability can thus assist economic growth which, together with social progress, must be the major objective of development policy.

Of course, financial stability cannot of itself cure all the problems of economic growth that beset the developing countries. Effective development planning, basic internal reforms, and adequate capital from both external and internal sources—all are necessary. This is well recognized by the Fund, which is, as it should be, the partner of economic development institutions, national and international, in coordinated efforts to increase the flow of external assistance and to help the developing countries make the best use of their own domestic resources.

I turn now to the economy of the United States and the status of our international balance of payments.

The recovery of the U.S. economy, following the mildest of our postwar recessions, is well under way and moving strongly. The low point in economic activity was reached in the first quarter of this year. In the second quarter, major economic indicators recorded new highs. Gross national product, personal income, and personal consumption expenditures all reached fresh peaks in the April-June period. Total industrial production recorded a new high in July and again in August. We estimate that gross national product, which jumped from an annual rate of just over $500 billion at the beginning of the year to $516 billion in the second quarter, will reach approximately $540 billion during the fourth quarter. The course of our economic recovery has been particularly encouraging since prices have remained stable. Hence, almost the entire rise in our gross national product has been real. Moreover, our increased economic activity has not been accompanied by speculative buying or abnormal build-up of inventories.

During the past year, the monetary and fiscal policies of the United States have been directed at limiting the extent of the decline in economic activity and at strengthening the forces of recovery. Prompt recognition by our monetary authorities of the impending downturn brought a quick shift of policy from monetary restraint to ease. As early as June of last year, the Federal Reserve relaxed credit restrictions by reducing discount rates and lowering the reserve requirements of commercial banks. Federal Reserve purchases of government securities provided additional bank reserves to combat recession and finance expansion. Reflecting this Federal Reserve policy, total loans and investments of commercial banks have expanded by 7 per cent, or $14 billion, during the past 12 months. This large increase provided a major force which softened the strains of recession and stimulated recovery.

On the fiscal side, increased unemployment benefits and other government outlays associated with the recession—in conjunction with reduced income tax collections—have operated as in previous

recessions to provide an automatic supporting influence. Largely as a result of these "built-in stabilizers," the total value of all goods and services produced during the economic downturn never fell appreciably below the corresponding quarter of the previous year.

As I noted earlier, we are especially encouraged that our recovery and our attainment of record new levels of production have been accompanied by price stability. Our index of wholesale prices has remained for 3 years at virtually the same level. Retail commodity prices have been stable while the over-all index of consumer prices has increased by less than 1 per cent since last October.

The business outlook for the United States during the coming year is very promising. Excessive stocks have been liquidated. As a result of rising production and sales, inventories have once more begun to increase moderately but they are not high in relation to either present or prospective needs. Consumers have reduced their debt and built up their savings, thus strengthening the outlook for retail trade. Net financial savings of individuals rose by $7.7 billion in the first half of 1961 on top of a $10 billion rise in 1960. In contrast to 1958-59, interest rates have remained remarkably constant during the initial recovery period.

We anticipate further vigorous growth. The substantial room in our economy for further expansion should avert any inflationary pressures that might otherwise develop. For we have no shortage of productive resources, nearly all of our industries are operating well below capacity, and the labor supply is ample. Continued rises in output should materially assist us in solving the persisting problem of relatively high unemployment. Nevertheless, we are developing worker retraining programs designed to attack this problem directly.

Federal budget expenditures remain well within our capacity. In fact, the deficit for fiscal year 1961 and the projected deficit for 1962 are together much smaller than the deficits during the last comparable recession and recovery in 1958-59. After taking into account all presently scheduled expenditures, including the substantially increased outlays for defense requested in July by

President Kennedy, our estimates point to a deficit this year (fiscal 1962) that will amount to about half the deficit for fiscal 1959. In addition, our gross national product will run some 17 per cent higher than in fiscal year 1959, and our tax revenues will be about 21 per cent greater. Hence, the economic impact of the current deficit will be considerably less than half that of the 1959 deficit.

The deficits in fiscal 1961 and 1962 are essentially a reflection of the short-fall of revenues resulting from the recent recession. This is a characteristic of our tax system, because it is heavily dependent upon direct taxation of personal and business income. For the same reason, we may expect sharp increases in revenues as business improves and the economy grows. The calendar year 1962 gives every promise of being a very good year for business, and since our revenues are based upon earnings of the previous year, we can confidently look forward to a substantial increase in our income during the fiscal year 1963, which begins next July 1. Fiscal 1963 will be closely comparable in the business cycle to fiscal 1960, when federal revenues jumped $10 billion over the preceding year. Hence, unless a need arises for further increases in defense outlays, the balanced budget which President Kennedy is determined to submit next January can be achieved without any increase in taxes. However, should additional defense expenditures become necessary, the President has stated clearly and unequivocally that he is prepared to request additional taxes should they be required to balance the budget.

I would like to emphasize the firmness of our decision to balance our budget in fiscal 1963. Indeed, had it not been for the increase in international tensions over Berlin, which forced us to increase our defense expenditures substantially above the levels previously planned, we could have looked forward confidently to a substantial budgetary surplus in fiscal 1963. We are resolute in our determination to maintain both a sound and an expanding economy so that the United States may play its full part in the defense and the development of the free world and, at the same time, meet the requirements of an increasing population at home.

I am glad to be able to report that the U.S. balance of payments has developed in a much more satisfactory manner this year than

in 1960. The marked improvement in our merchandise account during 1960 continued into 1961, and the large speculative outflows of short-term capital, which swelled the volume of our outpayments in the second half of 1960, have ceased. Our merchandise trade surplus in 1960 amounted to \$4.7 billion, whereas in 1959 it had been less than \$1 billion. In the first half of 1961, our trade surplus was running at a seasonally adjusted annual rate of \$6 billion.

These developments are reflected both in our "basic" position (comprising all of our recorded transactions exclusive of U.S. private short-term capital outflow) and in our over-all payments position. In 1960, the basic deficit amounted to \$1.9 billion, compared with \$4.3 billion in 1959 and \$3.6 billion in 1958. In the first half of 1961, the basic position continued the substantial improvement shown in 1960 and, without counting special prepayments of \$650 million on U.S. Government loans, was almost exactly in balance. Our over-all deficit, which is measured by decreases in U.S. holdings of gold and convertible currencies plus increases in foreign liquid holdings of U.S. dollars—which together amounted to about \$4 billion in both 1959 and 1960—was running at a seasonally adjusted annual rate somewhat under \$1.7 billion in the first half of 1961. The figure of \$1.7 billion also does not count as a receipt the special debt prepayments of \$650 million. While this indicates the continuation of substantial short-term capital outflows, these movements have represented, for the most part, a substantial enlargement of the financing of world trade by U.S. banking institutions and have not been speculative in character.

These are encouraging developments. But they do not mean that the United States can relax its efforts to achieve a satisfactory and durable equilibrium in its balance of payments. We must have a large and growing export surplus of goods and services to pay for military expenditures abroad which we incur for the defense of the free world. We must have it for both that portion of our foreign aid program that is not covered by procurement in the United States and for our continuing large outflow of long-term private development capital.

The improvement in our trade surplus so far this year cannot be expected to continue in the months ahead, since it was accomplished more through a decrease in imports than through an increase in exports. And now as the U.S. economy moves toward reasonably full employment of resources, we must look to a corresponding expansion of our imports. Indeed, they have already started to grow. While this tends to sharpen our payments problem, it also leads to larger world trade and greater prosperity for our trading partners.

Accordingly, we must continue to make intensive efforts to expand our exports. This means for us, as it does for any nation, that we must constantly improve the productivity on which the ability of our producers to compete in world markets is based. It also requires that we prevent increases in money costs from canceling out improvements in productivity. At the same time, our producers must search out export opportunities with energy and imagination. The domestic market of the United States is a very large one, and many of our producers have traditionally thought almost exclusively in terms of that market, rather than of opportunities overseas. We believe this orientation can and must be shifted, for there are surely thousands of our producers who can be more successful in the export field than they have been in the past. It is for this reason that our Government is devoting considerable effort to bringing market opportunities abroad to the attention of our business community.

We are well aware that the position of the dollar as a strong reserve currency depends upon our success in maintaining a reasonable equilibrium over the years in our balance of payments. This we are determined to do. As we succeed, the upward trend in the accumulation of gold and dollars by other countries taken together will necessarily be slowed. The elimination of current payments imbalances can, of course, be greatly facilitated by the cooperation of surplus countries in pursuing liberal trade policies, in increasing long-term development assistance, and in sharing expenditures for the common defense in accordance with their capabilities.

During the past year, as Mr. Jacobsson has reminded us, there has been active discussion and examination in governmental circles, among economists, and in the financial press, of the adequacy of existing international monetary arrangements. These discussions have been very helpful. Mr. Jacobsson has now proposed that each of the principal industrial countries commit itself to lend its currency to the Fund up to a stated amount. I strongly agree that an arrangement of this sort should be worked out to ensure the Fund access to the additional amounts that would be needed should balance of payments pressures involving these countries ever impair or threaten to impair the smooth functioning of the world payments system.

At the same time, for its regular requirements, the Fund can, and should be expected to, borrow from one or another of the participating countries under Article VII whenever its supply of any of these particular currencies becomes low. It would also appear reasonable to consider the possibility that such loans be credited against any commitment which the lending country may have undertaken as its part of the multilateral arrangement. These special bilateral borrowings would thus replenish the Fund's supply of particular currencies in strong demand and, in this way, would help to avoid undue drains on its gold reserve.

I have no fixed opinions on the details of the multilateral borrowing arrangement. I am confident, on the basis of the encouraging views I have heard expressed in the past few days, that practical means can be found to give effect to the agreement in principle which so evidently exists. There are four important aspects which I do wish to emphasize:

First, the aggregate amount the participating countries should look forward to committing to the project should be large enough to add decisively to the Fund's capacity to play its essential role.

Second, to be effective, the additional resources must be promptly available in case of need.

Third, safeguards will be required to ensure that there will be effective consultation between the Fund and the lenders, and that the Fund will only actually borrow under the commitment

arrangements after taking full account of the current reserve position of the lending country. In addition, each country which actually lends to the Fund should, in case the need develops, be able automatically to obtain repayment from the Fund.

Fourth, I concur in Mr. Jacobsson's judgment that there must be no weakening of the policies that have guided the Fund in the use of its resources; nor should the new arrangements change in any way the existing rights and duties of members of the Fund, both as drawers of currencies and as providers of currencies.

This is an important project. The Fund should push ahead promptly in its current consultations with the prospective lending countries in order that the Executive Board may carry the project to completion so that the participating countries may obtain the necessary legislative authority from their parliaments early next year. With this done, the monetary system of the free world will be substantially strengthened, for the Fund will then clearly be in a position to meet the changing needs of the new world of convertible currencies.

Speaking for my country, I want to say that the United States regards the work in which we are engaged here in Vienna as having a direct and important bearing upon the future course of free world growth and progress. I have confidence in the ultimate outcome of our deliberations because I have confidence in the vitality of the free economies upon which the work of the Fund is founded. Our mutual goal is a world of expanding opportunities for every human being to pursue his legitimate aspirations in peace and freedom. The International Monetary Fund is playing an important role in helping us to achieve it.

Statement by the Governor for Indonesia

Soemarno

I wish to associate myself in expressing my deep sympathy for the tragic incident that happened to the Secretary-General of the United Nations, Mr. Dag Hammerskjold. This great loss is deeply felt by the whole international community.

Once again the International Monetary Fund has produced its Annual Report, and once again we are struck by its thoroughness. As usual, it gives a comprehensive review and analysis of the principal economic, financial, and monetary events for the year ending on April 30; it also gives a description of the Fund's own activities.

I would like, together with my colleagues, to commend the men and the brains behind the Fund's work and achievements, namely, the able Executive Directors, the highly competent Managing Director, and his ever-vigilant and skilled Deputy and staff. It was a busy year for the Fund, a year which now lies behind us. We all know how active a role Mr. Per Jacobsson has played outside his headquarters in Washington. His well-known statement at Basle has, at least, stemmed one wave of uncertainty, which, at that time, was threatening to weaken the position of certain currencies.

Looking backward, there are a few things which have impressed us and a few other things to which I would like to draw your attention and that of my fellow Delegates. First of all, how difficult and elusive a goal is stability, this cherished idol of ministers of finance, governors of central banks, and the Fund. We in the developing countries have thought that instability is more or less inherent in our society because we are compelled to move rapidly from a low level of production and national income to a higher one. And yet, we witnessed last year that the so-called structural dollar shortage of the world has disappeared and that the United States went through a period of balance of payments difficulties. And here in Europe, the peculiar process took place of an economy which, in making great progress, was troubled by large export surpluses. In addition, another industrial country with extensive international obligations by the use of its currency in large parts of the world was hampered in its growth. And so the value of the dollar and pound weakened in the international exchange markets, whereas that of the deutsche mark hardened substantially.

It is a poor consolation to us in the developing countries to see highly developed countries like the United States, West

Germany, and the United Kingdom struggling for stability, each in its own form and manner. There is no ultimate satisfaction in sharing difficulties, especially not if the instability in such industrial countries as mentioned has great and adverse effects on ourselves. The only gain is that perhaps the highly developed countries will henceforth have a better understanding of our struggle against instability. But, apart from that, the economy of the less developed countries is not insulated from events outside their boundaries. Fortunately, the recession in the United States did not spread to Western Europe and Japan, but, nevertheless, the weakening demand in the United States has an unfavorable effect on prices, including those outside that country. It is understandable that, due to this and other factors, the balance of payments of less developed countries came under pressure and, as the Fund's Annual Report stated, "all drawings during the year were made by nonindustrial countries."

The effects of unstable conditions in some highly developed countries are not restricted to declining export results on our side. For one thing, developing countries need credits and loans and, whereas the German instability was one of export surpluses, the U.S. and British positions were the other way round regarding their balance of payments. One would say that the United States and the United Kingdom would be favorably inclined to launch an export drive, and West Germany the reverse. But the facts are rather different. The countries running into balance of payments deficits were understandably interested in immediate and quick solutions, while in the meantime pondering about long-term measures. This means that cash exports are welcome whereas exports on credit are considered less attractive, apart from the financial and monetary effects of credit extension under inflationary conditions. The position and interests of the developing countries are entirely different. They have to import, but their cash position is bad and so they need loans and credits.

Another concern on our side relates to the development of the money and exchange markets. Most of us are holding our reserves in one or more internationally used currencies. This is more a matter of necessity, due to the lack of funds and the

desire for some earnings, rather than of deliberate progressiveness. Unlike the advanced countries before the gentlemen's agreement between certain central banks, we, for instance, are already holders of dollars, of pounds, of German marks, which we did not and do not convert into gold. Changes in interest rates and erratic conditions in the exchange markets which finally resulted in the dramatic revaluation of the German mark always necessitate vigilance and adaptation. Here again is a vulnerable spot in the economy of underdeveloped countries.

It is laudable that the International Monetary Fund, faced by the instability of the position of the balance of payments of certain major industrialized countries, with its serious effects on themselves and the rest of the world, is giving close attention to all the events mentioned. During the last fiscal year, there was a possibility of large purchases by important advanced countries. They did not take place, but in the second part of our calendar year, the United Kingdom, as we all know, sought recourse to the Fund's resources. Many intelligent people are devoting their thoughts to finding ways and means to enhance the position of the Fund in order that, for its part, the Fund may alleviate or cushion such instability as is expressed in the development of certain balance of payments positions. We have stepped up the Fund's means by way of increasing our quotas. It now seems that we are going to make use of Article VII, which allows the Fund to arrange for borrowings. We welcome this effort, because it is necessary to enhance the Fund's resources. By this I have in mind not only the interests of the advanced countries, or more specifically the interests of certain internationally used currencies, no matter how important such currencies are also to my country.

What I have in mind is the fate of the underdeveloped countries. In our stage of development, it seems that we are nearly always between the devil and the deep sea. If there are booming conditions in the Northern Hemisphere, we in the South do not always benefit from them. But once there is a tendency toward a recession or even toward stagnation, then we are hit and caught. Together with other Delegates from less developed countries we have stated many times how vulnerable our economies

are because we are dependent on the proceeds of our exports and these exports are to a large extent dependent on conditions abroad, and further because export commodities show wide short-run fluctuations. We have pleaded many times for the stabilization of raw material prices, and we will continue to do so. In this respect, I would like to welcome the fresh and encouraging approach of the U.S. Government, as expressed yesterday by the Governor of the Bank for the United States, regarding the fluctuations of raw material prices and stabilization, which are of major importance for the underdeveloped countries, and therefore cannot be ignored by international financial institutions.

But this time I would also like to appeal to all of us to devote special attention to other aspects of instability in the underdeveloped countries. If we are ready and willing to safeguard major industrialized countries against the effects of instability, if we are about to launch a scheme in order to be able to come to the rescue of such countries if and when it is necessary, why do we not have specific provisions as well in case an underdeveloped country should run into trouble?

Our balance of payments is always exposed to instability even if we do not develop. But we have to develop, if only for the sake of maintaining our low standard of life, because everywhere in the world population is increasing. As we all know, we are bound to move beyond that status quo line. It is not only a revolution of rising expectations which is now raging with us, but one of rising demands in all fields. Our people want to learn, want to receive adequate medical treatment, want to enjoy higher standards of life, and all this has its effects on our internal and external stability. The world must realize that, whether one likes it or not, the underdeveloped countries have to develop and if the advanced countries cannot move forward without instability, the more reason why we in the economically less developed areas must advance. Put your budget in order, restrict your credit, step up your production, we know all this, and we are very serious about developing under stable conditions.

But in my country for one, with its great population pressure, somewhere a school is urgently needed, or a hospital, or a bridge,

or a power station, or fertilizers for our crops, or some other extras, and there we are in the middle of monetary and balance of payments pressures. We will continue to fight to secure stability, but where the flood is too strong, some easier and large access to international assistance, including the Fund's resources, should be made possible.

I would like to invite my colleague from Greece, Governor Xenophon Zolotas, to direct his inventive mind to this set of problems after having contributed to the solution of the strengthening of the Fund's means with a view to safeguarding the position of international currencies. I am confident that he will not be alone, that other minds will help, and we, too, are ready to give our modest contribution. It is gratifying to note that the Fund has always been understanding, flexible, broad-minded, and helpful to all its members, regardless of the political and economic systems to which they adhere. May I, therefore, express the hope that we will have another Zolotas paper, another Bernstein or Triffin plan, another staff paper this time devoted to a new approach to giving assistance to the balance of payments problems of developing countries. These problems will haunt us and the world for many years to come.

I have come to the conclusion of my statement. I thank the Chairman and my fellow delegates for their indulgence. May I now express my delegation's warmest thanks and gratefulness for being guests here in Vienna, in this old but ever new city, so full of splendor of the past, so gracious and wise in its approach and attitude toward the present, so confident toward its future.

Statement by the Governor of the Bank for France

Wilfrid Baumgartner

I would have liked Mr. Jacques Brunet, who has been presiding with authority over the destinies of the Bank of France for almost two years, to address this meeting. But since some of the issues under discussion may call for governmental decisions, I wish to make some remarks myself.

First, I want to thank my friend, Mr. Jacobsson, once more for another year of sustained efforts. We are glad that he will stay at the head of an organization which, in the face of new difficulties, has remained the guardian of the monetary order. It is this task that the Fund must pursue, adapting itself, to be sure, to the requirements of a situation in constant evolution, while observing as well the line of conduct marked out from the beginning by its Articles of Agreement and, since a long time ago, by its policy.

I am sometimes reproached in my own country for the caution with which I speak of the results achieved. In France, understatement has not fully acquired freedom of the city. But before this assembly of specialists I think I can say that the threats which seemed at the beginning of the year to hang over the monetary order have been staved off with some success.

The decisions taken successively, first in the United States in order to facilitate the recovery of business and restore the balance of payments equilibrium, then in Germany and in the Netherlands with the revaluation of the deutsche mark and the guilder, and finally in the United Kingdom for strengthening internal economic policy, happily contributed to dissipate the widespread rumors about the weakness of the western monetary system and to reduce the resulting capital movements.

Since, at the same time, a substantial number of countries have accepted the obligations of Article VIII of the Agreement, and the liberalization of trade generally has recorded new progress, notably in France, it can be asserted that the past year, despite the difficulties encountered, was finally a year of progress.

Naturally, in expressing this reassuring opinion, I am far from thinking that we are now safe from any hazard. We may well have other worries, and we must be ready to face them. Since a year and a half ago, many plans have been published to assure the strength of the international payments system. I must say that they seem to me unrealistic in general, undoubtedly because there is no panacea in this field.

As we all know, the most effective contribution we can make to the maintenance of the monetary order is for each country to

apply nationally a sound policy and to ward off, in a world in expansion, the recurrence of inflationary pressures. The disequilibria which occur in balances of payments call first for internal measures. The contribution of the International Monetary Fund, as well as, eventually, measures of mutual assistance, can and should be only of a complementary nature. Such has been the constant doctrine of our organization, the appropriateness and effectiveness of which need no further demonstration.

The developments of the past year also bear witness to the very great usefulness of the cooperation among central banks which has materialized in Europe through the periodic meetings in Basle, at the Bank for International Settlements.

We have seen in the recent past that, although speculation does not hesitate to attack one currency or another, it can be held in check by the proclaimed cooperation of the main central banks.

Is it necessary to go farther in this field and to organize a second line of defense at somewhat longer term? That is a subject on which much has been said in recent months. It is a problem which, because of the fact that it concerns essentially the currencies of the industrial countries, could eventually be decided outside the International Monetary Fund. In that respect, our institution has clarified the provisions of Article VI of the Agreement concerning capital movements. We have finally been able to approve it, but not without indicating that the meaning of the texts should not be stretched in one direction or another according to the impulses or needs of the moment.

Mr. Jacobsson, in his opening address, indicated that he could not conclude that the Fund's resources were appropriate to its needs. It appears to me that a distinction should be made here between what I would call the normal needs of the Fund and the exceptional needs which might arise from the capital movements, also exceptional, which have recently been discussed. It is only for these exceptional needs that a strengthening of the Fund's resources might appear desirable.

I would almost say that what the Fund may need in this connection is more an assurance as to possible means of inter-

vention than means meant to be actually used. In other words, the existence of a second line of defense is without doubt more important than its utilization is desirable.

We must indeed be aware of the dangers that an automatic compensation of capital movements would create from the very point of view of safeguarding the international payments system. While recognizing that the world cannot, in the present state of affairs, fail to apply the system of the gold exchange standard, we must remain conscious of the risks of this system.

That is why, although France recognizes the importance of the problem raised by Mr. Jacobsson and is prepared, in principle, to associate itself with the joint efforts that it calls for, we do not intend any more, I believe, than some other European countries to commit ourselves or commit this institution by way of an automatic and rigid solution.

As a matter of fact, things may change quickly in this field. Let me take, for instance, the case of my country. Heavily in debt some time ago, it has been able to repay within two years more than a billion dollars of its external debts. Moreover, vis-à-vis the Fund, its situation has changed radically. Not only has it repaid all the drawings previously made, but it has provided currency for the drawings of other countries. The improvement of its position thus exceeds $600 million. What is true of France is also true of its neighbors. It can be noted in passing that, out of all the currencies utilized by the Fund, the contributions of Germany, France, Italy, the Netherlands, and Belgium added together balance and now even exceed the contributions of the United States. But, again, things may change.

Be that as it may, today France, like other countries, could possibly go a little beyond its present outlay, but under certain conditions.

Mr. Jacobsson, in this connection, mentioned the question of reversibility. This reversibility appears to me to go without saying. It goes without saying that just as the member countries have the right in our practice to an automatic drawing within the gold tranche, so the lending countries should, if their situation happens

to change, obtain immediately the repayment of their exceptional contributions. If I in my turn mention this point, it is mainly to show that it illustrates the danger of widespread inflation which automatic compensation of capital movements might entail.

And that leads me to the point which I consider as essential. It seems to me necessary that as regards assistance which will not be granted individually by certain countries directly under Article VII, but which by extension of the same provisions would be included in a borrowing arrangement set up by the main industrial countries, each country should remain judge of the advisability of the use of its own currency. Mr. Jacobsson spoke in this connection of consultations. Mr. Dillon spoke of safeguards. I prefer Mr. Dillon's expression, and that is the point to which attention should be given in the coming negotiations, which must be initiated but may be delicate.

To sum up and conclude, it seems to me that no country can wish to escape its duty of international cooperation, which may arise from the very progress that we have made in the convertibility of currencies. But care must be taken to avoid this convertibility being one day jeopardized by insufficiently precise procedures. Such is the conclusion that I submit to my colleagues at this Annual Meeting in which I have had the pleasure of participating for 15 years and which, I am happy, is being held, thanks to the charming hospitality of the Austrian Government, in this city of Vienna where we find at every step lessons from history and promises for the future.

Statement by the Governor for the Federal Republic of Germany

Karl Blessing

I think we once again have every reason to express our appreciation for the efficient and competent work of the Fund and of its Managing Director. As evidenced by the Report of the Executive Directors, the past year has been an active one for the Fund and

has been successful in many ways. I would like to mention particularly the transition of 11 member countries to Article VIII of the Fund's Agreement as an important step toward the realization of the Fund's objectives.

Looking in retrospect at general economic developments in the past year, especially in the balance of payments field, there can be no doubt that this was an eventful year in which many of us had to face difficult problems and to learn new lessons about the greater international repercussions of our internal policies in a world of widespread convertibility and correspondingly greater capital movements.

In my own country, we faced quite remarkable divergencies between the external situation and the internal development. As I explained to you last year, the boom conditions then prevailing in Germany called for restrictive measures and higher interest rates. Higher interest rates, however, led to a foreign exchange inflow far beyond the inflow deriving from our favorable balance on current account, especially as the interest rate differentials were increased by the lowering of discount rates abroad; furthermore, speculative motives played a large role. In November last, in spite of the continuation of boom conditions in our economy, we changed our policy by reducing interest rates, thus paying more attention than hitherto to balance of payments requirements. This change in policy, however, involved the risk of seriously endangering the internal equilibrium. Since we felt that we must not fully expose ourselves to such a risk, and bearing in mind that the sustained foreign exchange inflow created more and more difficulties both for the international payments situation and for our own economic and monetary policy, it was decided on March 6, 1961 to revalue the deutsche mark. The revaluation paved the way for a further adjustment of our interest rate structure to a level more in line with our balance of payments position. This change in our policy since last November can, I think, be taken as proof of our endeavor to contribute in the spirit of good creditor policies to a better international equilibrium.

Fortunately, we can already see these policies bearing some fruit. I may say that both our internal and our external positions

have come closer to equilibrium today than a few months ago. Internally, the excessive demand is gradually beginning to ease, partly due to the fact that the increase of export demand has ceased. Externally, a regrettable period of unrest followed the revaluation of the deutsche mark and the Dutch guilder, leading to a substantial speculative inflow of foreign exchange; but since June a reversal of our balance of capital transactions—especially at short term—has taken place, bringing us once more into the position of a net capital exporter. The capital outflow on short and long term has indeed been so great in the current year that our official reserves have fallen since the end of 1960 by DM 3.2 billion, equivalent to $800 million (excluding the revaluation loss of DM 1.4 billion) despite a further increase in our surplus on current acount. Thus, in 1961 Germany has so far on balance contributed to an increase of international liquidity in the rest of the world.

Of course, it has to be admitted that nonrecurrent payments, such as advance repayments on our postwar debts, have played a considerable role in this development. I would not go so far as to say that we have already reached a lasting balance of payments equilibrium, but there can be no doubt that a number of equilibrating tendencies are at work. There are indications that our surplus on current account has passed its peak. In the field of capital transactions, official capital exports to developing countries have increased significantly with the broadening of our aid program. In the longer run there is also a fair chance of increased private capital exports. It is true that recent political tensions, while contributing to the outflow of reserves, have affected our domestic capital market adversely. For the time being, the decline in our long-term interest rate has come to a halt and has even been reversed. We do hope, however, that this is temporary and that in the not too distant future long-term interest rates will decline again, thereby providing even stronger incentives for exports of private capital.

The recent decrease in our reserves was also due to the very considerable increase in drawings of deutsche mark in the International Monetary Fund, in the course of which the Fund's

holdings of deutsche mark went down to a level of $85 million, or less than 11 per cent of Germany's quota at the end of August.

Let me now say a few words on the international monetary system. When we reached a state of widespread convertibility at the end of 1958, we were all quite proud of this achievement. Convertibility certainly meant a big step forward, but it has also confronted us with new problems, problems which we must learn to deal with. The greater freedom on the exchange markets and the closer integration of the various money and capital markets have brought about a situation in which actual or merely anticipated disequilibria in the balance of payments of various countries rapidly induce international capital movements. Furthermore, it became evident that an isolated and autonomous monetary and credit policy applied in contrast to the requirements of the balance of payments was practically impossible.

It would be a mistake to try to evade these problems by backing away again from the freedom achieved and by imposing some sort of control on capital movements. It also would be wrong, in my view, to resort to flexible exchange rates, because this would hamper world trade and might provoke even larger speculative capital movements. If we want to come nearer to the generally recognized aim of a growing integration of world markets and a further increase in world trade, we have to maintain a system of stable exchange rates as provided by the Fund Agreement. This, however, can only be achieved effectively if domestic policies are better coordinated between the various countries and if monetary, fiscal, and economic policies of both the surplus and the deficit countries are better adjusted to the requirements of the respective balance of payments situations. In fact, it means that we have to submit voluntarily to a monetary discipline similar to that inherent in the automatism of the old gold standard.

I should like to add that we cannot afford a monetary order under which we all march in step into creeping inflation. We must get away from creeping inflation which has dominated the past decade. We must seek to attain greater price stability than

hitherto. The big countries have a special responsibility in this respect, since inflationary impulses originating with them are apt to spread to the entire international monetary system. I am aware that this is not music in the ears of those who believe that easy money and creeping inflation are basic conditions of high rates of growth, but I am more than ever convinced that sustained growth can only be achieved by refraining from inflationary practices.

Lately, there has been an eager search for new and better monetary systems, even involving a complete transformation of the International Monetary Fund. Some people are afraid of a coming shortage of international liquidity; others feel that the gold exchange standard should be abandoned because of its inflationary character. I have the impression that such ideas, stimulating and thought-provoking as they may be, bring with them the danger that the prerequisites of any workable international monetary order, namely, monetary discipline at home and readiness for international cooperation, tend to become neglected. I do not believe in the magic of panaceas; I do not believe that monetary discipline can be replaced by new schemes and inventions. I do not share the opinion that we are in urgent need for greater international liquidity, nor do I share the view that the gold exchange standard is an evil in itself, or that it confronts us with the danger of a serious crisis.

The demand for more international liquidity is more or less the result of disequilibria in the international payments situation. In a better balanced world economy, there is, as history proves, less need for high reserves. And if the gold exchange standard is well managed and kept under adequate control, there is no danger in the system as such. I quite agree with what Mr. Jacobsson has said on this subject in his introductory statement. What we need is not a fundamental change but a gradual improvement of the present international system based on monetary discipline at home and on close cooperation on an international level.

In the interest of this close international cooperation, I attach great importance to the ideas outlined in the Managing Director's

speech. I consider it desirable that confidence in the Fund's lending power be strengthened by replenishing the Fund's holdings of a number of convertible currencies within the framework of a general replenishment plan, using the power of the Fund to borrow from its members under Article VII, Section 2. I think that firm commitments for granting such credits in case of need should be given by the various countries, but it should be made quite clear that participants in the scheme will only be called upon to provide such additional credits to the Fund if and for such time as their over-all balance of payments position permits such lendings. Since the plan is based on voluntary action, it is indispensable that members whose currencies are used should be fully consulted in advance of transactions. The main purpose of such a general replenishment scheme should, of course, be to make sure that the Fund will be well equipped to deal with critical situations in the international monetary system, such as a major crisis in key currency countries, which would adversely affect all of us. I would not exclude, however, the use of the borrowing powers of the Fund also for other purposes, if the need for it can be clearly demonstrated. A replenishment of the Fund's resources through borrowing under Article VII would be justifiable only if these additional means are used for sound and noninflationary purposes. In my view there can thus be no question of any weakening of the Fund's established lending principles. I welcome the suggestion of Mr. Jacobsson that the Executive Directors go ahead with their study of all aspects of the plan, and I hope that they will be able to work out concrete proposals in the not too distant future.

Statement by the Governor for Japan

Mikio Mizuta

It is a great honor for me to be at this Annual Meeting of the Fund and to have the privilege of stating some of my observations.

First of all, I wish to extend my hearty congratulations on the reappointment of Mr. Jacobsson as Managing Director. His

brilliant achievements in furthering the purpose and activities of the Fund are only too well known to us, and I believe this reappointment has a real significance for the future development of the Fund's activities.

It is also a cause for congratulations that there has been a considerable increase in the number of countries which have recently joined or have applied to join the Fund.

The past year was a very important period in the history of the Fund. Among other things, it is significant that 11 countries have accepted the obligations under Article VIII of the Fund Agreement. I highly welcome this move, for it is an important advancement toward the realization of a free and multilateral payments system.

In the next place, I would like to pay a high compliment to the achievement of the Fund in extending timely and sufficient assistance to member countries to overcome their balance of payments difficulties.

It is also worth mentioning that currencies drawn from the Fund are becoming more diversified. In this connection, it is my pleasure to see that my Government has made it possible that the yen could play its role in the recent drawings from the Fund, despite the unfavorable position of our balance of payments. These facts clearly indicate steady development under the leadership of the Fund in the field of international monetary cooperation.

All these are very pleasing developments of the Fund's activities to meet the need of an expanding world economy. At the same time, I recognize that a further strengthening is required of the Fund's resources by some practical measures. From this standpoint it is very appropriate to study the proposed borrowing arrangements between the Fund and certain member countries. I am willing to support the idea of such arrangements. Of course, it would be necessary to make a further study of the details of such arrangements by the Executive Board.

Now, I would like to mention our program for liberalization of trade and payments. For the past year our Government has

given high priority to the elimination of trade and payments restrictions for balance of payments reasons. It is our present aim to liberalize 90 per cent of our imports by the end of September 1962. Liberalization of current invisible transactions is also being steadily pushed forward, and, following the general trend in the world, we are endeavoring to relax the restrictions on capital transactions.

However, in this regard, considerable difficulties are now foreseen, judging from the recent adverse balance of payments position and other related problems. To meet this situation, my Government has already taken, and will take, necessary effective measures. It is our earnest desire to do our best in overcoming the balance of payments difficulties and expediting the liberalization program.

In this respect, I wish to take this opportunity to refer to one problem which exerts adverse influence on our export trade. As you well know, there are still a number of countries which discriminate against imports from Japan with or without invocation of Article 35 of the General Agreement on Tariffs and Trade. It is regrettable that some countries of Article VIII status are still exercising such discrimination. It is our sincere hope that such discriminatory practices will be removed as soon as possible through the friendly cooperation of fellow Governors.

In conclusion, I wish to express our willingness and readiness to cooperate with the Fund in a further development of its important activities.

Statement by the Governor for Greece

Xenophon Zolotas

The Executive Directors in their Annual Report, as well as Mr. Jacobsson in his stimulating introductory statement, have provided an excellent review of international economic developments in the past year, which should give rise both to satisfaction and concern.

In the course of the past year we have indeed experienced a substantial, although less balanced, expansion of world production and trade, effected in an environment of relatively stable prices and freer trading conditions. At the same time, however, and partly as a result of the ever-growing liberalization of payments and trade, new problems and potential threats to the international monetary system have emerged.

In a world in which high political and psychological tensions have become a regular phenomenon, it is only natural that the over-all beneficial movement toward freer payments practices would have some undesirable side effects.

Currency convertibility and the ensuing freedom in the movement of funds, while relieving the world economy from the detrimental effects of restrictionism, also expose it to the adversities of destabilizing speculation and of disruptive swings in the state of confidence.

What is really at stake in this case is not only the equilibrium of individual economies but the whole multilateral system of trade and payments, built up by so many efforts since the end of the war. Under these conditions, the expansion and optimal distribution of international liquidity become an urgent and important task.

The adequacy of international liquidity, on the other hand, is closely related to the vital issue of economic development. As has been repeatedly pointed out, the flow of development capital from the industrial countries to the less advanced regions of the world is largely influenced by the level and structure of reserves. A satisfactory solution of the international monetary problem is therefore also of major importance to the less advanced countries and their development efforts.

The role of the Fund in assuring international monetary order could hardly be overemphasized. The Fund deserves our wholehearted support in the fulfillment of the great mission defined by the letter and the spirit of the Articles of Agreement. Indeed, as Mr. Jacobsson pointed out, the fact that the world monetary order is being supported and defended by the Fund is highly

reassuring. I feel confident that the Fund, in accordance with the spirit of the Articles of Agreement and in the light of its wide experience, will be empowered to proceed to the expansion of its role and activities in order to safeguard international monetary equilibrium and the progress achieved hitherto.

As emphasized in the Annual Report, the approach of the Fund in this respect should look beyond immediate needs and ensure in advance its capacity to deal effectively with the many and varied situations that may arise under a system of freely convertible currencies. What is therefore required is a mechanism with a speed of reaction, flexibility, and range of action corresponding to the abruptness, volatility, and magnitude of disturbances induced by fears and expectations. Experience has shown that the mere existence of an effective system of safeguards may serve to forestall the manifestation of disequilibrating tendencies.

In view of the above considerations it is obvious, and by now widely accepted, that the Fund's resources must be increased to a level corresponding to the expanding liquidity requirements of a system of multilateral payments, in an era of uncertainty and wide swings in the state of confidence. In this respect, I believe that the Fund's management has prepared a valuable plan which is being reflected in the constructive proposals of Mr. Jacobsson, particularly with respect to the ability of the Fund to borrow additional resources. I would like to express at once my agreement with these proposals, since I myself had the honor to present you a few years ago with similar suggestions.

Mr. Jacobsson's proposals offer a good basis for the working out of credit arrangements that would be acceptable to all concerned. It is, of course, important that adequate safeguards should be provided for the lending members. It should be kept in mind that, as made clear by Article VII itself, borrowing by the Fund requires the agreement of the lending member and that no country is under obligation to make a loan to the Fund. This having been said, it is to be expected that every effort will be made to work out solutions that would make it possible to attain our goals and maintain unimpaired the multilateral free trade and payments system to the advantage of all countries.

Recent developments and past experience have shown the necessity of close international cooperation, particularly among the major trading countries. One of the prime tasks and outstanding achievements of the Fund is to promote on a regular basis, together with other international organizations, such cooperation and coordination of policies.

On the other hand, the proposal to increase the Fund's resources through borrowing underlines once more the necessity to apply sound principles and rules with respect to the utilization of such resources. In this connection, it is essential to emphasize the need to prevent or correct fundamental disequilibria through the application of sound monetary and fiscal policies and the establishment of realistic par values. Duties and responsibilities in this direction are becoming more pressing both for the Fund and the countries concerned, whether these are surplus or deficit, industrially advanced or in the process of development. The burden of such responsibilities is greater for the countries with reserve currencies, the value of which should be defended mainly by appropriate internal action. Surplus countries, on the other hand, should readjust their policies to avoid sterilization of international reserves and to promote world-wide economic development. As regards the less advanced countries, it is my firm belief that, assuming an adequate flow of development assistance, monetary and fiscal order is not only compatible with, but absolutely necessary for, economic development. In this respect, I would like to mention the example of my country, in which the consistent maintenance of monetary and fiscal discipline in recent years has been achieved together with a substantial rate of growth.

Although the measures proposed by the Fund's management would be a major step toward the solution of world monetary problems, it is also essential to reinforce the gold exchange standard through direct action on the part of the reserve centers and the major trading countries. In this respect, I have had the opportunity of indicating elsewhere a number of measures which, without being revolutionary, could, in my opinion, contribute to the solution of both the short- and long-term aspects of the problems of international liquidity. These measures are a useful

complement and not a substitute for the expansion of the activities of the Fund. They are designed to work in parallel with the Fund's activity toward maintaining international monetary order, and would be helpful in preventing disturbances as distinguished from the Fund's action, which by its nature would be more of a corrective character.

The above proposals would be all the more effective if appropriate action is taken to support rapid economic growth in the developing countries. This presupposes an adequate flow of development capital to these countries and the widening of their export opportunities, together with a greater degree of stability in the prices of their primary export products. In all these matters, international cooperation and coordination is urgently necessary.

The importance of timely anticipation of future developments which can ensure our preparedness to forestall rather than to react *ex post* to major disturbances cannot be overstressed. It would therefore be unwise not to proceed to the establishment of an adequate mechanism along the lines of the Fund's proposal, together with other supplementary reinforcing measures.

The valuable work of the Fund, both in assisting to overcome current difficulties and in preparing to deal effectively with future ones, has greatly contributed to the freedom and equilibrium of international transactions. In the midst of present problems, the prudence and competence of the Fund's authorities should inspire all its members with confidence and optimism.

Statement by the Governor for India

Morarji R. Desai

We are meeting at the end of a year which has seen a considerable ferment of ideas in the field of international monetary cooperation. Never before have so many plans and schemes been put forward for the reform of our institution. And I think I am right in saying that behind all the debate and discussion that has

gone on in recent months lies the desire to consolidate the gains of the past decade and to evolve a pattern of international cooperation which could respond to the quick change of pace to which we are all being subjected.

The pace of change in international affairs nowadays is such that within three short years after the New Delhi meeting we are required once again to consider ways and means of augmenting the resources of the Fund. The advent of convertibility in large parts of the world, while symbolizing the growing economic strength of many Fund members, has facilitated large and frequent movements of capital which at times have proved somewhat burdensome to one country or the other. Perhaps the best evidence of the quickly changing international economic scene is provided by the fact that, within only a few months after the preparation of the Annual Report of the Executive Directors, the Fund has been called upon to provide accommodation to as many as 15 countries, involving a total amount of more than $2.5 billion. The fact that transactions of this magnitude, including an important transaction with my own country, have been put through so smoothly and expeditiously is, I think, an index of the flexibility and understanding with which the Fund has approached its growing tasks.

It is equally clear from the excellent Report of the Executive Directors and from the illuminating address of Mr. Jacobsson that the Fund has not been merely a passive spectator in the debates about new initiatives and new policies to which I referred a moment ago. It has pressed forward with its tasks steadily and courageously. A rational policy in regard to the currencies to be drawn from the Fund, to which my distinguished friend, the Governor from the United Kingdom, referred last year, has already become an established practice. It is only proper that the Fund should make a well-balanced use of its holdings of various currencies and that the currencies to be drawn at any given time should be largely those of the members that are currently gaining reserves. At the same time, experience has shown that this criterion need not conflict with the needs of the members or with their traditional ties with particular financial centers.

We welcome also the decision of the Executive Directors that the use of the Fund's resources for financing capital transfers is both appropriate and authorized by the Articles of Agreement. We consider it self-evident, as well as prudent, that in assessing the need of a member, the Fund should look at the balance of payments as a whole and not at some particular aspects only. What is important is the pursuit by members of policies and objectives which are consistent with the purposes of the Fund and a reasonable assurance of prospective improvement in the payments position of the member, so that the revolving nature of the Fund's resources could be preserved. But where these conditions obtain, there is no need or justification for drawing distinctions between the different causes of a member's difficulty, be they related to capital transfers or the process of development or some purely seasonal or cyclical factors.

There is another area in which the Fund has made considerable headway in the last year. I am referring to the sound beginning that has been made with Article VIII consultations. Speaking on this subject last year, I had occasion to urge that consultations with Article VIII countries should not be confined to matters within the strict jurisdiction of the Fund, but should embrace broader aspects of international economic cooperation, such as those relating to trade and aid. One of the most urgent tasks facing the international community today is that of persuading the economically advanced countries to pursue a truly liberal policy toward the exports of the developing nations so that in time trade can take the place of aid. And the Fund, by its Articles of Agreement, is required to keep the broader aspects of international economic cooperation in view. I am happy to say that such experience as we have had with Article VIII consultations so far gives every assurance that, in the future as in the past, the Fund's consultations with all members will be imbued with the spirit of free and frank discussion of problems of common concern.

While the Fund has thus shown that it is constantly on the lookout for new initiatives and a new orientation of its policies, I am sure that no one in this room would contend that we have exhausted the scope for further action. The Report of the Directors

and Mr. Jacobsson's statement have drawn attention to the discussions that have already taken place on the replenishment of the Fund's resources by borrowing. It is our earnest hope that these discussions will be brought to a speedy and forward-looking conclusion—and may I emphasize the fact that the outcome should be truly international rather than regional or exclusive in character. Given the unsettled state of international affairs, no one can discount the possibility of an unusual concentration of requests for accommodation from the Fund. It would be only prudent to arm ourselves in advance for any likely combination of claims on the Fund. While the Fund's holdings of gold are naturally meant for use when circumstances warrant, it is our earnest belief that frequent and large use of gold by the Fund would not be appropriate. It is for this reason that we attach special significance to the technique of borrowing national currencies as a normal means of supplementing the Fund's resources.

While I am still on the general plane of Fund policy, I might refer to some matters concerning the policy regarding the use of the Fund's resources. As the Report of the Directors points out, the policies the Fund has followed in this regard for some time have enabled it to conduct its operations with flexibility and dispatch. Nevertheless, there are a few matters to which further thought needs to be given. The first relates to the so-called gold tranche drawings which are virtually automatic. Unfortunately, the gold tranche as now defined does not bear the same relationship to a member's quota in every case, so that the degree of automatic accommodation provided to different members is not the same. It is our view that a member's need cannot be judged by the size of its gold contribution, which is determined by many historical considerations. A rational approach which has no overtones of the means test would be to treat all drawings up to 25 per cent of the quota on a par. Beyond this, drawings up to the second 25 per cent of the quota should also be readily permitted as long as a member is making reasonable efforts on its own behalf.

In short, and without introducing too many fine distinctions, a member should have ready access to the Fund up to half its

quota as long as it is making a reasonable effort. In practice, perhaps, we have come very close to this position, but a formal statement along the lines I have suggested, in subsequent Annual Reports, may serve better to assure members that their drawing rights on the Fund are truly an extension of their own reserves.

My second point relates to the differences in treatment that at present exist between drawings and stand-by arrangements. From a common sense point of view, a member who says, I will draw within a certain amount if I need it, is asking for less than a member who actually draws a similar amount. Nevertheless, it would appear that a stand-by arrangement is perhaps treated less favorably than a drawing. Thus amounts drawn under a stand-by are generally to be repaid within three years, whereas drawings are repayable within three to five years. I think this is an area in which the Directors and the Management could perhaps give a closer look at the existing practice.

I have dwelt at some length on broader aspects of Fund policy, as I feel the time is now ripe for building further on the sound foundations which have already been laid. We are very fortunate indeed that our esteemed Managing Director, Mr. Jacobsson, will continue to be at the helm of affairs for the next two years or so; and I have no doubt that, under his wise leadership, the Executive Directors and the staff will seize every initiative for enlarging the usefulness of our institution.

Turning to events in India, you are well aware that for more than a decade now we have made the development of our economy the centerpiece of all our policies. We have just launched our third Five Year Plan. And while this is not the occasion to detail the gains of the past and the tasks for the future, I should like to say that as we try and tackle our formidable problems we are much encouraged by the understanding and assistance we have been receiving from so many friendly quarters. The access to the Fund's resources such as we so readily obtained last July is of great and timely help to us. But given the assistance we have received, there is a great deal that will turn on our own efforts and endeavors.

The stresses and strains in the Indian economy to which I referred last year still remain, and we have been operating on a very slender margin as far as our foreign exchange reserves are concerned. However, we have made considerable progress in augmenting internal resources, and we shall pursue this task steadily to meet our growing needs. In stepping up domestic savings and mobilizing resources for development, budgetary policies have a most important role. The tax net is being extended and even essentials of consumption are being taxed. In the field of credit policies, the Reserve Bank of India is employing a variety of monetary instruments flexibly. It is our hope that, as the foreign assistance already promised begins to be disbursed, it should be possible for us to carry on with the task of development while fulfilling all our obligations.

In the ultimate analysis, however, we would need to make every effort to increase our exports rapidly. In this respect, there is now much greater awareness in India, and we give the highest priority to export promotion. Much, of course, will depend on our own efforts to increase production, improve its quality, and keep our prices competitive by general monetary and fiscal soundness as well as by the utmost regard for efficiency. But, as I have already indicated, we shall also need the cooperation of other countries, if our genuine efforts are not to be frustrated by restrictions on our nascent exports. In this, as in other matters, we shall look forward to the enlightened leadership of this institution and its members.

Statement by the Governor for Italy

Guido Carli

The Annual Report of the Executive Directors and the opening addresses by the Chairman and the Managing Director made it very clear how valuable were the Fund's activities during the past financial year, but they also underlined the problems it had to face if it were to continue to take effective and timely action in the future.

These problems are indeed numerous and complex, from both the technical and the institutional point of view. We believe that there is much wisdom in a gradual approach, dealing first with the most pressing matters. We also believe that, in tackling these problems, it would be a mistake to indulge a sentimental predilection for the monetary systems of a now distant past. If these were to be set up again, it would be in name only, because the underlying structural conditions, which at the time enabled these monetary systems to function, no longer exist.

At the same time, people working on practical political problems cannot simply ignore the institutional and psychological obstacles which stand in the way of bestowing autonomous liquidity-creating powers on any international body.

The problem of international liquidity has, of course, been the subject of heated debate for some time. It is our opinion that we should avoid solutions which imply that a return to the past is necessarily a step forward, and we should also avoid solutions that represent too bold an anticipation of a possible future.

With these convictions, we find ourselves in agreement with the Managing Director's view that the present international monetary system is viable and that our problems can best be solved by joint collaboration within the framework of the International Monetary Fund, regional monetary arrangements, and the individual central banks.

The strains and stresses which arose recently in connection with the large movements of short-term funds between the major industrial countries have shown how desirable would be an all-round policy of coordination and solidarity.

Looking back over the recent past, I think I can say that, as indicated at last year's Annual Meeting, Italy has given proof of her wholehearted acceptance of her duties to the international community deriving from her own improved external liquidity position.

Our balance of payments surplus on current account gradually decreased during 1960 and the first half of this year, owing to

a heavy increase in imports due primarily to the expansion of fixed investments in the private sector. Calculated on an annual basis, Italy's foreign trade figures for the first half of this year suggest that the trade deficit (f.o.b.) for the whole of 1961 may be around $900 million—at which level it should almost offset the expected surplus on invisibles.

Last June, we took further measures to reduce the remaining discriminatory import restrictions vis-à-vis the dollar area. Continuing on the road of liberalization of capital movements, Italy has adopted further measures in the last two years; in particular, in February 1961 a Ministerial Decree authorized credit institutions and finance companies to own foreign securities.

Incidentally, the measures adopted by the Italian authorities, within their autonomous sphere of decision, to mitigate international liquidity difficulties are noted in the recent report prepared by the International Monetary Fund staff on the occasion of the consultations with Italy under Article VIII of the Articles of Agreement.

This report also states that the Fund's lira holdings have now been reduced to 16 per cent of the quota. Since the holdings of other currencies have also dropped to a low level, I think we must agree with the Managing Director that the Fund's reserves should be strengthened through borrowing arrangements between the Fund and individual members, as provided in Article VII, Section 2(i), of the Articles of Agreement.

Recourse to this procedure requires the study of particular problems which the Executive Directors may be called upon to examine. I would suggest that their examination would gain much in clarity if we were to state in advance our views on the conditions which should be met in order to put successfully into force the proposed borrowing arrangements.

In my opinion, the countries called upon to lend their national currency to the Fund should be those showing a balance of payments surplus. They should be able to rely on a system of reciprocal drawing rights for the amount of the credit granted, in case their own balance of payments got into deficit. Finally,

it should be made clear how these loans can be brought under the provisions of Article XII, Section 5(b), relating to additional voting rights for members in a credit position.

The additional resources should be mainly utilized to offset those huge short-term capital movements which affect the countries having the biggest Fund quotas, in whose currencies member countries invest their monetary reserves, and which can therefore endanger international monetary equilibrium.

The existence of such offsetting facilities should also aim at holding in check the external consequences arising from the fact that reserve centers may be compelled to frame their interest policies in conformity with the needs of their internal situations.

The situation today is in many respects rather different from what was envisaged at the time when the Fund was created. We must, therefore, find solutions to fit present-day conditions, fully conscious of the magnitude of our task, which is, in the Managing Director's own words, to consolidate and defend the system of convertibility built up, by dint of sacrifice, over the last few years.

Statement by the Governor for Canada

Donald M. Fleming

We are all deeply indebted to the Managing Director for the penetrating and illuminating address with which he introduced the Annual Report of the Executive Board. The Canadian Government is indeed happy to know that Mr. Jacobsson is to remain our Managing Director for a further period of two years.

I join other Governors in welcoming several new members. As a Commonwealth country, Canada is very happy to have the Governors from New Zealand and Nigeria in attendance at this meeting. We also extend a warm greeting to the Governors from Laos, Nepal, and Portugal, who are with us for the first time.

There are two points that I wish to discuss today. One relates to the Canadian exchange rate and the other to the use and availability of the resources of the Fund.

As other Governors are no doubt aware, Canada made three unsuccessful attempts to maintain a fixed exchange rate in the years immediately following the war. In that period, as in the period between the wars, we encountered grave difficulties in these efforts. In 1950, we were driven to the conclusion that the forces then acting on the Canadian exchange rate, and in particular the international movement of funds between Canada and the United States, were too massive for us to control or direct. Therefore, as the Executive Board noted at the time, we adopted a floating exchange rate. It was, I think, recognized that Canada was pursuing policies in harmony with the objectives of the Fund: we abandoned wartime quantitative restrictions over trade and payments, and made our currency fully convertible long before most other members were able to do so.

From 1950 to 1960, the only official interventions in the exchange market were to prevent sudden and disorderly movements of the rate. From 1951, when our dollar may be said to have found its level after the abandonment of a fixed rate, until the present, the rate has been extraordinarily stable on a month-to-month and even on a year-to-year basis.

We have found, over the years, that international capital movements, while usually very beneficial to our economic development, can at times exercise perverse and untoward influences. Last year it became increasingly clear that our exchange rate was being buoyed up by certain types of capital inflow which were, in relation to the pace of our development, unnecessary. In effect, we were incurring obligations abroad for outlays which would have been better financed in Canada. In the process, the unduly high level of our exchange rate was making Canadian goods and services less competitive than they might otherwise have been in markets both abroad and at home. We were running, and had been running for some time, a deficit on international current account that substantially exceeded a billion dollars a year, and this at a time when our own productive resources and our own labor were substantially underemployed.

Our problems were partly of a cyclical nature, and related to the concurrent cyclical movement in the United States, but they

also had some long-term, or structural, characteristics. For example, the rate of growth of our labor force has, in recent years, exceeded that in any other western country. At the same time, as a result of the completion of wartime reconstruction, and of the expansion of agriculture and primary industry in many quarters of the world, our own natural products were no longer in such active demand, and the remarkable Canadian investment boom gave place to more modest rates of investment and some excess capacity in various industries.

In June of this year, against the background of these problems, I introduced an expansionary budget. It envisaged a very substantial contribution to the flow of Canadian incomes in the form of a budgetary deficit. It provided tax incentives for business modernization and improvement. In various ways, including new procedures in debt management, it looked toward lower interest rates and more particularly toward narrowed spreads between interest rates at home and abroad. In this way it was designed to eliminate an important incentive to import capital and remove one of the causes of our high exchange rate and our current account deficit. It envisaged other changes in the capital market designed to achieve the same ends. And, in passing, it should be noted that we refrained from raising tariffs or imposing quotas or instituting other protectionist measures that were strongly urged on us from various quarters as the proper remedies for our underemployment situation and our quite unreasonably large deficit on current international account.

What I actually said about the exchange rate in my budget of June 20 was as follows:

> It is the Government's intention that our import surplus of goods and services, which has been running in recent years well over a billion dollars annually, should be reduced substantially, and that this should be brought about through an appropriate adjustment of the exchange rate rather than by direct government controls or subsidies, quotas or tariffs.
>
> No one can say today what the appropriate level of our exchange rate would be when our balance of payments is in a position better suited to our present economic circumstances. But the rate will certainly be lower than it has been of late, and it may well be appropriate for it to move to a significant discount. It will be government policy to facilitate such a movement.

> Accordingly the exchange fund will be prepared, as and when necessary, to add substantial amounts to its holdings of United States dollars through purchases in the exchange market. This would have the effect of increasing the foreign exchange reserves available to Canada to be used in case of need. As many competent observers have pointed out, these reserves have not grown over the past decade in line with Canada's international transactions. Once an exchange rate position is achieved, the Government will use the resources of the exchange fund to ensure that the rate is kept within a range appropriate to Canada's changing economic situation. The value of our currency must, of course, ultimately depend upon our pursuit of appropriate economic policies.

The Managing Director and the Executive Board were promptly informed of the budget announcement and the Canadian Executive Director proposed a fuller review of the situation. This took place at a meeting of the Board a month later. We shall welcome further consultations with the Fund on this and other matters.

In the discussions we have already had with the Fund, we have, I believe, been able to allay certain fears and apprehensions about the nature and purposes of our actions. Our Executive Director, on behalf of the Government, assured his colleagues that no competitive depreciation of the Canadian dollar is to be anticipated. Other members of the international community are fully entitled to seek assurances that the Canadian exchange rate will not be manipulated in a manner injurious to them, and such assurances I am glad to reiterate at this meeting.

In the event, the Canadian dollar fell at the time of the budget from a small premium over the U.S. dollar to a discount of slightly more than 3 per cent. It has since moved in the vicinity of this level, with very little intervention from our Exchange Fund. No massive commitments of funds have been required, and we have continued to operate in the market in a manner designed to promote orderly conditions. At the beginning of September, our official holdings of gold and foreign exchange were actually slightly lower than they were at the beginning of June. I should add that they had been somewhat reduced by our contribution toward the recent drawings of the United Kingdom from the Fund.

My second subject concerns the use and availability of the resources of the Fund. A particularly interesting feature of

Mr. Jacobsson's address was his account of the widening of the group of currencies drawn from the Fund last year. It seems wholly appropriate that drawings should be made largely in currencies which at the time are strong, in the sense that the countries concerned have favorable payments positions and reserves which are both adequate and increasing. We recognize that this policy should not be applied too rigidly, and we found it appropriate that the Canadian dollar should be included in the packages of currencies drawn by Australia and the United Kingdom this year, notwithstanding our large international indebtedness and our heavy current account deficit.

As a general rule, the advice given by the Managing Director on currencies to be drawn would result in a reduction of the Fund's holdings of the stronger currencies. This may well give rise to the need for replenishment of the Fund's resources of particular currencies to meet its ordinary purposes.

It is fortunate that methods of increasing the resources available to the Fund have already been discussed at some length in the Executive Board, and we congratulate the Managing Director on his foresight in inviting the Board to consider these questions last February. The discussions in the Board have, of course, been concerned with a broader question than the replenishment of the Fund's resources for its ordinary purposes. They were, in particular, concerned with providing the means of mitigating the upsetting effect of short-term international capital movements. These movements have, as we know, increased in amounts with the establishment of convertibility in many countries. All countries have an interest in avoiding disturbances to the international monetary system. The particular part that any country may play will naturally depend on its own special circumstances. I am in no position to make any commitment regarding possible Canadian participation in any arrangements that may be worked out for this purpose under the aegis of the Fund. I can assure you, however, that Canada will continue to follow discussions of this important matter with close interest.

Statement by the Governor for South Africa

T. E. Dönges

At the outset I wish to express my deep appreciation of the assistance which the Republic of South Africa has received from the Fund during the past year, in the form of a gold tranche drawing and a stand-by for the first two credit tranches. I know that our request for the stand-by, in particular, came at a somewhat awkward time for the Fund, which was just at that time reconsidering its policy with respect to capital movements, and I am therefore all the more grateful for the manner in which our request was dealt with.

I think that my country's case provides a good example of the way in which the stand-by device may help to restore confidence and thus to counteract those forces which always tend to intensify the difficulties of a country whose balance of payments position is deteriorating. When we requested the stand-by, we expected that we would have to draw a substantial part of it almost immediately. The mere announcement of the stand-by, coupled with certain other measures we have taken, has, however, already led to a strengthening of our reserves so that no actual drawing on the stand-by has thus far been necessary.

I turn now to the suggested scheme of stand-by credits to be granted to the Fund by the leading industrial countries.

When the Fund's resources were increased by some 50 per cent a very short while ago, and the view was expressed that the world's liquidity problem had thereby been solved for at least a decade, we ventured to express very serious doubts whether the matter could be solved in this way or by any essentially similar procedure. Events have certainly not been long in confirming our views. The procedure now envisaged is basically the same, save that it involves certain members in lending, instead of subscribing, resources to the Fund, and avoids the immediate depletion of national gold reserves which the majority of the Fund's members simply could not afford. We feel impelled, therefore, to state once again that the present suggestion will not increase world liquidity.

On the contrary, the most probable effect will be a considerable increase in the world's credit structure which already rests on an inadequate gold base and, in consequence, a still greater danger of economic and currency instability. If international liquidity could be increased by the simple expedient of creating more international indebtedness, a liquidity problem could not really exist.

As we have so often pointed out, the so-called increase in international liquidity secured by placing additional quantities of national currencies at the disposal of other nations or international organizations is counterbalanced by actual or potential claims thereby created on the gold reserves or other real resources of the countries so making their currencies available. In other words, the wider spread of liquidity will only be obtained at the cost of diluting the gold reserves of the countries prepared to help their less favorably placed brothers. To take an example, both the United States and the United Kingdom have for many years been very generous indeed in creating such claims on themselves so as to provide less fortunate countries with more liquidity and the means to a better life. But the cost of this process has now become evident enough for all to see, and would indeed have been recognized years ago, had not massive control systems and various attempts further to economize in the use of gold, succeeded in clouding the issue. As it is, it is now widely realized that neither of these two countries can continue to provide exchange reserves for other countries unless, at the same time, they are able to increase their gold reserves proportionately. In short, the watering-down process in their case cannot go much further.

Apart from this basic weakness in the suggestion, we unfortunately see other difficulties as well. Under the scheme envisaged, the resources which the Fund will borrow will be made available to members in accordance with established Fund principles so as to assure that they will not be dissipated in support of unsound national policies. But having regard to the primary purpose for which these additional resources are to be borrowed by the Fund, we feel that such an assurance, to be effective, will call for the

exercise of greater and more continuing authority by the Fund in the formulation and supervision of national economic and financial policies than is presently the case. It would seem that only in this way can the borrowing member be certain that the Fund's resources will be available to it immediately at any time that it may need them and in the amounts which it requires; and without this certainty, the scheme must lose a great deal of any attraction it may have for borrowing countries. This degree of Fund intervention, however, has not so far proved to be acceptable, and I venture to doubt its advisability.

We touched on this matter when the previous increase in the Fund's resources was discussed in New Delhi a brief three years ago, and we must reiterate that the final responsibility for keeping its house in order must rest with each individual country, for which purpose adequate nationally owned reserves are indispensable. For obvious reasons—not all of them economic—there will always be varying degrees of "soundness" or "toughness" in the economic and financial policies which different countries deem it desirable or practicable to follow in their peculiar circumstances. No standard set of policy principles exists which can be applied effectively to all countries at all times, and upon which the member and the Fund can or should automatically agree. But the absence thereof, in our view, invests any proposal which, like the present, depends for its effectiveness upon enhancing the role of the Fund as an arbiter of national policies, with difficulties and dangers for all concerned.

We agree wholeheartedly that the problem which underlies the suggested scheme and the various other proposals that have seen the light in recent times, namely, a serious shortage of liquidity in the world, is a very real one. But we feel that all these palliatives fail to provide an adequate solution, because no one of them goes to the kernel of the matter. We have noticed no particular enthusiasm among the surplus countries of the world to accept paper evidences of debt into their reserves as the equivalent of gold, even when these are guaranteed by an international organization. Nor is the reason far to seek, for such guarantees can have little real significance in the context of an

uncertain and indefinite future, inasmuch as their exchangeability into real resources or gold depends upon unforeseeable developments in national and international policies and politics. Gold, on the other hand, is a real asset with an intrinsic value which can only be slightly affected by such factors, if at all. In fact, the more unfavorable they tend to become, the more does the desirability of acquiring and holding gold tend to increase.

In our view, thus, the acceptability of the Fund's evidences of debt will tend to be limited. Were this not the case, it would not be necessary to make prior arrangements for various countries to accept them in certain specific quantities and subject to an interest payment, as well as various other conditions. The inevitable conclusion is that the amount of such notes which can be placed will prove inadequate to meet the world's steadily growing need for reserves unless, of course, the Fund makes them gold certificates which are convertible in full at any time into a fixed amount of gold in the Fund's possession. But the Fund's gold reserves are also limited so that, within a relatively short space of time, we shall be obliged to make certain that there is a sufficiency of gold available, within the Fund or outside it, for the world's reserve needs.

This brings us to the heart of the problem, namely, the grave and growing inadequacy of the world's monetary gold reserves. Since 1950, when international liquidity was certainly not at a satisfactory level, world trade has doubled in value, but official gold reserves have increased by only some 14½ per cent. Taking good years with bad, it is reasonable to put the average annual increment in the value of world trade at between 5 and 6 per cent, while the annual accrual to official gold reserves from new gold production and from Russian gold sales is probably little more than 1 per cent.

The discrepancy is obvious, and the imbalance between international liquidity and international trade will grow steadily worse; nor can this imbalance be cured by any scheme, however ingenious, for extending international credit. The only fundamental remedy, as an increasing number of currency experts is coming to realize, is a substantial upward revaluation of gold. Appropriately enough

in present circumstances, the two main reserve currency countries are likely to be among the largest beneficiaries from such a move. For those who believe that international monetary discipline requires the restoration of some form of international gold standard, such a revaluation is also an essential first step.

While we therefore regard the suggested scheme as far less effective than a uniform change in par values as provided for in Article IV, Section 7, of the Articles, I would not wish to convey the impression that we are unwilling to join in an exercise of international cooperation, even if this exercise will, in our view, prove to be a temporary expedient of only limited value. If, therefore, the general feeling of the meeting is that another attempt should be made to give temporary relief at this stage, we shall be prepared to cooperate. Perhaps when the limitations of this attempt become apparent, other member countries will be ready to give serious consideration to the more fundamental and lasting solution which I have mentioned.

Statement by the Governor for Nigeria

Chief F. S. Okotie-Eboh

First and most important of all, I would like to add my tribute on behalf of the peoples of Nigeria to the many which have already been paid to that gallant international figure, Mr. Dag Hammarskjold.

It was largely upon him that millions of our peoples in the African continent had come to depend for justice, freedom, and peace. It is true, as the Chairman said, that he met his untimely death in Africa. But it should be clearly recorded that it was not Africa that killed him. He had gone to the Congo in continuation of his untiring and unswerving efforts to bring peace and stability to all parts of the world. That there should have been trouble in this part of the African continent was not due to the African peoples themselves, but rather to continued undue interference in our affairs by external influences.

Mr. Dag Hammarskjold is dead in the service of all mankind. I am sure his indomitable soul goes marching on and will prove an inspiration for generations yet to come.

I am deeply touched by the obvious warmth of the welcome extended to Nigeria as a new member of these great financial institutions, both during the formal proceedings and also in the more personal and informal contacts which I have already had with the Delegates of very many countries. I would like to take this opportunity on the first occasion of my speaking here to assure you that Nigeria intends to do her utmost to uphold the aims, practices, and traditions which she has so successfully built up over the years. At the same time it is our hope that, by our example, we in Nigeria can make a significant contribution to the growing consciousness of the hitherto little known African continent in the world at large. It is indeed significant that we have on the agenda before us the consideration of applications for membership in this institution from four countries, and all of them are African.

Although a very new member here, I have long studied and admired the extreme vision, the clarity of thought, and the downright common-sense approach to vast and complex problems which have typified our Managing Director, Mr. Per Jacobsson. His masterly exposition at the opening of this discussion proved to be no exception. I am a practical man and more concerned with the concrete realities of a situation than with abstract theories. I am not opposed to academically qualified people as such but only to those whose feet are seldom on the ground, who lack experience in the practical application of their theories and yet who go to a great deal of trouble in attempting to foist their ideas onto practical men. There are far too many people of this type in the world today. But in Mr. Per Jacobsson we are doubly blessed, for he is at one and the same time eminently well qualified and eminently practical. I am sure that his advice will once again be heeded by us all, but I would go further than that and suggest that his speeches be made a compulsory study for all economists, bankers, financiers, and the like. Perhaps in the future we may

publish them all for him in a book which I would like to call "The Jacobsson Manual of Practical Economics."

I intend to speak only briefly, but I trust that brevity will not be taken to imply lack of appreciation of what I regard as the most challenging phenomenon of our times. We in Nigeria have followed with keen interest the various proposals which have been put forward in recent months with a view to making even more effective the machinery of the Fund. It would perhaps be presumptuous for me, as a very new Governor, to talk on the purely technical aspects of the proposals put forward by Mr. Per Jacobsson. I will therefore content myself with saying that no trading nation can fail to support realistic efforts to increase the supply of funds available to finance world trade.

The imbalance with which these various proposals should place the Fund in a better position to deal, is an imbalance which is expressed in terms of statistics and levels of reserves. I do not for one moment gainsay the vital importance of finding a solution to these problems in the interests of an expanding and orderly world trade. It is, however, essentially a problem of relatively short-term imbalances which, given assistance from the Fund and the adoption of adequate measures by the countries affected at any given time, may reasonably be expected to right themselves. But there is an even more fundamental and crucial, long-term problem of imbalance in the world today. I refer to the rapidly growing disparity between the industrialized countries and the less developed parts of the world. This is a problem which affects the well-being and standard of living of by far the greater part of the human race; it is not merely a problem of statistics and figures which somehow seem remote from the day-to-day lives of the common people. I am reminded of a remark by a former U.K. Chancellor of the Exchequer, Mr. Heathcote Amory, that statistics are to a finance minister what a lamppost is to a blind man—more for his support than for illumination.

It is a most unfortunate and indeed distressing thought that, during the past decade in a time of great general expansion in world trade, the exports of the less developed countries have suffered a relative decline, in terms of both volume and price.

The results are reflected in the figures before us: the developing countries' reserves are fast running down whilst the reserves of most, if not all, of the industrialized countries continue to soar to unprecedented levels. But mere figures cannot portray what this implies in terms of human happiness and prosperity or human hopelessness, frustration, and poverty. This situation is also fraught with serious political dangers, for instability feeds upon frustration. Our peoples will not indefinitely tolerate what they regard as the fixing by the industrialized countries of prices not only for the manufactures they sell but also for the commodities they buy. We talk glibly of domestic savings but how can an individual save when his income is barely at the subsistence level—a position which has been aggravated of late by declining commodity prices.

In his opening address, the Chairman referred to the position of countries, largely dependent upon one or two primary commodities for their foreign exchange earnings, in the light of fluctuations in world prices and demand for their products. Perhaps Nigeria is more fortunate than others in that we have a reasonable diversity of primary commodities on which to depend, but this basic problem still holds true in our case. In any event, I have no wish to treat this from a national standpoint; it is an international problem of the first magnitude. The fluctuations in prices do indeed present a serious complication, but the position is made very much more serious by the tendency over the past few years for the low points in the fluctuations to become steadily lower each time. In many cases, temporary fluctuations seem to me to some extent to mark a general downward movement in prices for our products. I note, too, Mr. Jacobsson's comment that even the large increase in European and Japanese imports was not sufficient to raise the general level of raw material prices, which in fact slightly declined over the year. But fluctuations and the downward tendency in prices represent only one facet of the problem.

Later on in his masterly exposition, Mr. Jacobsson referred to the efforts being made by the Fund to assist developing countries to diversify their economies and widen the scope of their

exports. I think it very pertinent to ask of what avail will be this type of assistance by the Fund, accompanied by the very real sacrifices called for from the developing countries themselves, unless they are able to dispose of their goods in the markets of the world freely and at fair prices. Perhaps I may quote from the Annual Report of the Executive Directors: "For them, [that is, for the primary producing countries] it is a matter of vital importance to find satisfactory outlets both for their traditional products and for such other commodities as they may produce by diversification of their economies. . . . The strength and wealth of the industrial countries should be used not only to give economic aid to the countries with lower per capita incomes, but also to absorb more readily the growing diversity of their products."

These then, as I see it, are the major problems of economic imbalance in the world of today. Without a solution, I can see little hope of bettering the lot of mankind. Time is short, desperately short, and I hold it to be imperative that we come to grips with these problems now. I know of no better way of achieving our purpose than through the activities of the Fund, one of whose purposes is declared to be "to facilitate the expansion and balanced growth of international trade." I therefore propose that we invite the Executive Directors to consider these problems side by side with their consideration of the inadequacy of the Fund's available resources in the hope that success will attend their endeavors.

I know and accept that much depends upon the developing countries themselves; they must try to produce goods likely to be acceptable in the markets of the world, they must curb unessential spending and accept in full measure the necessary monetary discipline. The industrialized countries must play their part by cooperating in the elimination of violent fluctuations and achieving fair prices and by opening their markets to the products of the developing countries. Sacrifices, frequently great sacrifices, will undoubtedly be called for, on both sides. Both have a common interest in serving the orderly and rapid development of all the peoples of this world. And here I think I speak for all those who desire to continue to have their feet on terra firma.

Statement by the Governor for Pakistan

S. A. Hasnie

It gives me great pleasure to join my fellow Governors in congratulating the management and staff of the Fund on their excellent Report. The Report maintains the Fund's tradition of presenting a deep and penetrating analysis of world economic problems and developments. It provides a true perspective for evaluating the part played by the Fund during the year.

It is gratifying to note that the Fund continued to make all-round progress during the year and that its operations expanded considerably, to reach a record level. I am particularly happy to note the increase in the membership of the Fund. May I extend a hearty welcome to the new members who come from different parts of the world. I am sure they will make valuable contributions to the deliberations of this assembly. With the upsurge of freedom in Africa and Asia, a number of independent states have emerged on the world map. I hope we will have occasion to welcome many new members from those regions next year, particularly those whose applications are now at different stages of processing. Their entry in the Fund is essential to maintain the truly international character of this organization.

Perhaps the most significant development during the year, which is a source of great satisfaction to all of us, has been the extension of the area of formal convertibility of world currencies. Early in 1961, 11 member countries, mostly in Europe, decided to accept the obligations of convertibility for their currencies as set forth in Article VIII of the Articles of Agreement of the Fund. The postwar struggle toward convertibility of currencies has been long and arduous. There have been setbacks. But thanks to the steady efforts of the countries concerned, and the confidence generated by the Fund, the goal has been reached earlier than many had expected. Though *de facto* convertibility had been achieved for a number of currencies by the end of 1958, the final move toward full convertibility had to await a further growth in confidence. It is indeed no mean achievement on the part of

the Fund to have created conditions which enabled the major trading currencies of the world to become fully convertible. I call this a triumph of the principles enunciated at Bretton Woods 15 years ago. The world is distinctly progressing toward its goal of an international monetary system based on the free flow of funds under a multilateral system of payments. Perhaps it is true to say that never has the area of convertibility been so large since the breakdown of the gold standard.

The widening of the area of formal convertibility has important implications for the Fund. The Fund's mechanism may be used more frequently and on a much larger scale than in the past to protect world currencies against speculative pressures. With the increase in its resources through a general revision of quotas, it is to be hoped that the Fund would be in a strong position to cope with increased pressures of this nature.

In recent years, some doubts have been expressed regarding the ability of the Fund, as at present constituted, to provide a stable basis for international financial relations. A number of schemes have been put forth for reforming and reorganizing the Fund or replacing it by something completely new. We would do well to take note of this criticism of the working of the Fund and see how it can be made better suited to the changing needs of the world. What is needed are additional stand-by credits and a reorientation in the policies and procedures of the Fund so as to meet the challenge of altered conditions. Perhaps a broader and a more flexible approach than shown hitherto toward the problems of member countries is indicated to retain the gains that have been achieved. However, I am confident that the basic structure of the Fund is sound enough to meet the new situation. It has through adjustments over the last 15 years adequately fortified itself to meet the various contingencies as they arise. I am sure it can through suitable modifications and adjustments continue to serve as the hub of the international financial system.

I notice that, in all the schemes which have been presented for the reorganization of the Fund, emphasis has been placed on the creation of greater world liquidity. This is to be based largely on

the existing quotas of various countries in the Fund. These schemes, however, do not seem to give sufficient consideration to the special problems of underdeveloped countries. As the Report of the Fund has pointed out, while, on the whole, developed countries gained reserves, developing countries lost reserves during the year. This development, which is true of a much longer period in the past, merits serious thought. The developing countries have not been able to add substantially to their reserves while their production and trade have grown. The reserves have actually declined in the case of a number of important primary producing countries. This situation, if continued over a longer period, would create a serious problem of inadequacy of reserves in these countries.

The problem of the distribution of reserves is distinct from the world liquidity question and needs to be tackled separately. Naturally, the primary producing countries would come to rely more and more on their borrowing rights with the Fund. It is significant that last year all the purchases from the Fund were made by underdeveloped countries and these purchases were of a record magnitude. It is also known that the borrowing powers of these countries, based on their initial quotas, are limited. Once the limit has been reached, these countries would face the problem of serious illiquidity. While this situation points to the need for a much greater export orientation in the development policies of these countries, some international action appears to be necessary to meet the problem. I am glad that some thought is being given to this question by the Fund.

The Report has rightly drawn attention to the interest of underdeveloped countries in the orderly and sustained growth of economic activity in the developed industrial countries of the West. Both the volume of exports of primary producing countries and their terms of trade depend largely on the rate at which demand for raw materials grows in industrial countries. Assistance from the advanced countries is possible on a substantial scale only if their production and income continue to rise. The emergence of any serious imbalance in the economies of developed industrial nations would naturally have adverse repercussions on the incomes in underdeveloped countries. These countries, therefore, have a

real stake in the efforts of the Fund to create conditions in which setbacks to world economic development can be avoided. To the extent that the International Monetary Fund is able to avoid resort to exchange restrictions or deflation at home by member countries, underdeveloped countries would benefit directly from its activities. They can hope to have steady exchange earnings as well as an assured flow of foreign assistance.

The Fund Report has noted with satisfaction the progress toward the implementation of stabilization programs in a number of countries. I am happy to mention here that in Pakistan comprehensive stabilization measures introduced gradually over the last three years have produced satisfactory results. These included a determined effort to avoid deficit financing and to restrain the rate of monetary expansion. A stage was reached during the last year when liberalization of restrictions could be attempted on a wide scale without undue strain on our foreign exchange reserves. Domestic distribution and price controls were withdrawn at the same time. Past accumulated inflationary pressures were made to wear off through rising domestic production and a larger flow of imports. This has created a more favorable climate for steady growth, and investment in the private sector has shown greater buoyancy. We are grateful to the Fund for the appreciation and sympathetic understanding of our problems and also for their support in carrying out this program of import liberalization and stabilization of our economy.

Lastly, I wish to thank you, Mr. Jacobsson, for the most learned and illuminating statement you made the other day on the activities and achievements of your organization and also to thank your staff who have helped you in the accomplishment of your difficult task.

Statement by the Governor for the United Kingdom

Selwyn Lloyd

I listened with close attention to the timely and constructive speech by the Managing Director of the Fund. I join in the

tributes which have been paid to him. He quoted in his speech from Shakespeare's play "Measure for Measure." I read some words in that play which seem to me very appropriate for application to our Managing Director:

> "Here comes a man of comfort, whose advice
> Hath often still'd our brawling discontent."

We are very glad that he is to continue in office. I am confident that he will see in the financial and monetary field that some other words from "Measure for Measure" do not apply: "Some rise by sin and some by virtue fall."

In his speech, Mr. Jacobsson referred to a question of great importance to the United Kingdom, namely the drawing which was made in August of the equivalent of $1.5 billion, together with the stand-by arrangement which gives us the right to draw the equivalent of a further $500 million during the next 11 months or so. This was the largest application for assistance in the 15 years since the Fund began its operations; it involved difficult problems of policy and technique. I welcome the prompt and effective way in which these problems were handled by the Fund. This demonstrated the adaptability of the Fund, an adaptability which has been developed over the years by the Managing Director and his staff, and I pay tribute to them for this.

We also gladly acknowledge the friendly cooperation we have received from the many countries which helped to finance the drawing. This was not merely an impressive example of the application of the Fund's techniques, but an outstanding instance of international cooperation.

Mr. Jacobsson referred in his speech to the measures which I announced in the House of Commons on July 25. The immediate objective of these measures was to relieve the pressure on sterling. The movement of the reserves since July 25 has made it clear that, despite the shadows cast by the international situation, the measures are succeeding in that the speculative pressures on the pound have eased. But the basic and long-term objective is to secure the strengthening of the U.K. economy and a restoration

of a satisfactory balance of payments. In other words, we have to achieve a surplus sufficient to enable us to discharge, year in, year out, our heavy commitments overseas; and, of course, as we discussed yesterday, one of the most important of these is our substantial aid program. The achievement of this surplus requires the creation and maintenance of an adequate margin between our total capacity and our domestic use of resources. The surplus we need can only be achieved if we can ensure that our competitive position is maintained; in other words, if we can sell abroad the goods made from the resources freed from use at home.

I am under no illusion about the difficulty of the tasks which lie ahead of us and the sustained efforts which will be involved. The conditions of the changing world will call for new effort and new thinking in the United Kingdom in a number of directions. Apart from technical developments and the best use of our resources, we have in particular to consider how we can ensure that increases in personal incomes are kept within the bounds of increases in productivity.

I turn now to the Annual Report of the Executive Directors. One thing emerges clearly from it, and that is how significant the last year has been in the history of the Fund. I am thinking particularly of the widening of the area of formal convertibility which was marked by the move to Article VIII on the part of a further 11 member countries. It is an impressive fact that practically all currencies used to finance international trade and payments are now fully and formally convertible. This has been the climax of many years of patient work in dismantling restrictions left in the wake of the Second World War—a process in which the Fund has played a full part. More than that, it is a reaffirmation by the countries concerned of their conviction that the principles and purposes of the Fund provide the right basis for the international payments structure; and a reaffirmation also of their determination to abide by those principles and to regard the Fund as a vital instrument of cooperation in this sphere.

The Fund has rightly recognized that the moves to Article VIII have important implications for its general activities. There has been a shift of emphasis from dismantling restrictions and from

encouraging the full development of multilateralism—on which, of course, much still remains to be done—to developing new ways to strengthen this system of free payments. The Executive Board has already given much thought to this and by its decision of June 1, 1960 helped to pave the way for a new pattern of cooperation adapted to changing circumstances. I have in mind the declaration in that decision that there is a "great merit in periodic discussions between the Fund and its members even though no questions arise involving action under Article VIII." The Annual Report before us points to the value of this new type of consultation as providing an effective means for the exchange of views on monetary and fiscal, as well as payments, problems. The United Kingdom has in the past profited from the opportunities provided by consultations under Article XIV for frank discussion with the Fund staff. We are convinced that the new arrangements under Article VIII will be equally valuable. The United Kingdom was glad to take part in the first discussions of this kind earlier this year, and to hear the Fund's views.

It may be appropriate if I digress here for a moment to refer to other international consultations on monetary matters. I would not wish it to be inferred from what I have said that the United Kingdom does not welcome the discussion which is going on in other organizations. For example, we are clear that the Organization for European Economic Cooperation and its successor, the Organization for Economic Cooperation and Development, have a valuable part to play in the field of monetary cooperation. Discussions on monetary questions in the Organization and its Committees have been valuable, and I hope that they will continue. But I certainly would not envisage that these discussions would lead to arrangements detracting in any way from the influence and importance of the International Monetary Fund.

I have been glad to note both from the Annual Report and from Mr. Jacobsson's statement that the Fund has been considering and developing new techniques to deal with changing conditions affecting international payments. I am sure that it is right that we should discuss possible wide-ranging new approaches to these

problems, but I propose to concentrate my remarks today on three matters of immediate importance. These all arise in my judgment from the fundamental problem of imbalance in international payments to which I drew particular attention in my speech last year.

Last year, I expressed my concern lest the method of operation of the Fund should aggravate the problem of imbalance by reason of the tendency for members to take drawings in only a very few currencies. We have traveled a long way since then. The moves to Article VIII, to which I have referred, have helped by increasing the number of currencies in which it is permissible, under the Fund Agreement, to make repayments to the Fund. Equally important in practice has been the establishment of the convention that, in the first place, countries making substantial drawings should, before making their formal request for Fund assistance, consult the Managing Director as to the currencies most suitable for drawing; and, in the second place, that the Managing Director should, for his part, contrive that drawings are taken in the currencies of the countries that are accumulating or have accumulated relatively large reserves. There was a clear example of this policy in the case of the recent drawing by the United Kingdom which was made in no less than nine currencies.

Another aspect of the present payments situation is that greater freedom of exchanges has increased the relative importance of capital movements, and this is partly because controls have been relaxed and partly because of speculative factors and disparities in interest rates which have encouraged the ebb and flow of funds. This situation calls for continuous direct cooperation between the countries mainly concerned, and I welcome the evidence of this in recent months. But the Fund also has an important part to play, and I am glad to note that the Executive Board has clarified a previous decision in such a way that use of the Fund's resources to finance capital transfers is not precluded. This will help the Fund to maintain the flexibility and effectiveness of its operations.

Finally, there is the question whether the Fund has adequate supplies of the currencies needed for its operations. The resources arising from the original contributions, together with those deriving

from the quota increases made following the meeting in New Delhi in 1958, are a substantial provision against most contingencies. Moreover, there exists the possibility of replenishing the Fund's resources by the sale of gold, as was done this year. We agree, however, with Mr. Jacobsson's view that the Fund's gold should be used sparingly. If, however, this view is accepted, we are confronted with the problem which he foresaw in his statement. A country with a fundamentally sound economy but a temporary balance of payments problem must be able to turn to the Fund with confidence that the Fund will be able to help, with resources which are adequate both in amount and in kind. The prudent course, therefore, is to make special provision now for circumstances in which additional supplies of certain currencies may be needed.

The founders of this institution in their wisdom provided a possible remedy in the form of the powers under Article VII to replenish the Fund's holdings by borrowing; and the Managing Director and the staff have already carried out useful studies of ways in which those powers might be used. In the light of those studies, the Executive Board have begun to examine the practicability of credit arrangements of a stand-by nature between the Fund and certain countries which would enable it to borrow their currencies whenever—but not until—the need arose.

Let us be in no doubt that such arrangements are a matter of fundamental importance. Without them, as I believe, it will not be possible to ensure the effective functioning of the present system of international payments. As Mr. Jacobsson said in his speech, this is a matter of deep interest and concern to all members of the Fund. All have a common interest in the effective functioning of the system. All must be confident that, if and when they need help, the Fund will have the means to help. But obviously also the arrangements will be of particular concern to those members whose currencies are likely to be needed by the Fund in greater amounts than are available under their quotas. I am sure that we should all recognize this and the consequent need to have safeguards for effective consultation between the Fund and the lending countries.

The United Kingdom welcomes the work already done by the Executive Board on this important subject, and what has been said on it by previous speakers, and is ready to play its part in a scheme based on the principles to which a general assent seems to be emerging. In our view, it is essential that as a result of this meeting the Executive Board should feel empowered to work out and agree upon a detailed scheme with the minimum of delay.

Statement by the Governor for Morocco

M'Hamed Douiri

Holding our international financial conference in Vienna enhances the charm of our customary autumn meetings. The courteous and friendly reception by our Austrian hosts in their magnificent capital fills us with joy and I thank them for it.

Each year we compare all our experiences, each member State tells you its problems, and the problems of all the members determine the problems of the Fund and the Bank.

This year our institution's interesting reports have devoted not one paragraph to Morocco; we did not, it is true, borrow anything from the Bank or from the Association, nor did we withdraw any money from the Fund. That does not mean, however, that we are among those happy people who have no problems.

In the first place, a decision was reached with the Fund to fix a monetary parity, and the policy that that decision reflected may be regarded as a success. We note in the Annual Report that we are one of the three countries in the history of the Fund that have been able *not* to utilize the stand-by agreement that had been extended to them. During the year 1960, at the end of which we renounced the stand-by, national income and economic activity increased by 11 per cent, gross national production increased, in constant currency, by a considerably higher coefficient than the population, exports and imports were one fourth and one half again as high as the levels of the previous year.

These are the results of a policy drawn up in collaboration with the Fund, and they reveal the weakness of the traditional monetary theory: imports increased instead of decreasing, and clearly more than exports; the trade deficit reappeared. Morocco's case, however, does not bring up again the monetary interpretation on which all present-day doctrinal discussions permit some reservations; economic factors, particularly a clear resumption of business, as a result of devaluation and the introduction of normal control of transfers, have played the essential role.

In the second place, I shall stress the economic and financial action taken by His Majesty's Government in both domestic and foreign, public and private fields.

In November 1960 the Five Year Plan for 1960-64 was promulgated by His Majesty Mohamed V, who was thus able, before his lamented and premature demise, to trace out the future lines of development of his Kingdom. This product of the mutual work of the Government, the people, and the private sector is one aspect of an over-all policy aimed at the harmonious development of all activities and all social categories. It stresses three basic objectives: the training of skilled workers, industrialization, and reforms needed for expansion of agriculture (all the more urgently as for the second time in four years the harvest, and therefore the economic situation as a whole, was very badly affected in 1961 by deplorable weather conditions). Our Plan requires the investment in five years of the equivalent of $1.4 billion, 40 per cent to be supplied by the State and 60 per cent by private enterprise.

Obstacles in the way of financing a plan arise first of all from the fiscal and monetary policies which, your organizations correctly suggest, should fully express a national effort. The Government of His Majesty Hassan II has undertaken a new project of rural promotion that represents a large-scale investment of workers' savings, and we have instituted a compulsory civilian labor corps. In this way, in this private field that Morocco is entering under encouragement, a new code of investments involves increased internal discipline; moreover, foreign investments, already favored

by the code, should be encouraged by the signing of the U.S. guarantee agreement, by economic and technical cooperation agreements with Italy and Germany, by the German investments guarantee agreement, and by the participation of first-rank Italian and U.S. banks in the capital and on the board of our National Development Bank where they join with their French and Belgian colleagues.

Nevertheless, financing of the growth of the Moroccan economy will require still further surpluses of national savings and rational confidence from abroad; at the same time, the projects will have to be effectively drafted and carried out. Moroccan problems are, consequently, also those of your institutions.

It has become very difficult to determine whether the present international monetary system or some other totally different system has inflationary or deflationary effects. It would therefore appear that the wisest policy would be that advocated by the Managing Director of the Fund. This is not skepticism on my part; similarly, while it has been stated that the underdeveloped countries pay little heed to problems of liquidity and international monetary problems, I do not subscribe to such a lack of interest. Morocco is well aware that international monetary order, the creation and mobilization of national savings, the channeling of foreign capital toward harmonious development of all regions of the world, grow out of each other and are various verbal interpretations of one and the same idea.

First, responsibility for equilibrium of the balance of payments must lie with the member states. Since these countries are developing, a distinction must be made between cyclical and basic disequilibria: it seems difficult for the Fund to cope with all the structural deficits. True, it is up to the Fund to encourage this international effort to stabilize the prices of primary materials, a rather mournful theme of our meetings; but, in general, equilibrium in the balance of payments of these countries cannot as yet be attributed to monetary expedients, and until investments have transformed their structures, the underdeveloped countries, even if aided by the Bank, may find themselves tragically alone with

regard to foreign exchange deficits. President Black, moreover, has soberly stressed his deep concern over this matter. These countries therefore must be permitted to restrict certain types of consumption for which they are now reproached as "living beyond their means."

Morocco, for its part, has a banking system analogous to that of industrial countries and can use credit policy to overcome difficulties of the balance of payments when execution of the equipment plan requires new imports.

Similarly, countries in the course of development must be enabled to earn foreign exchange through their new exports which will arise from the diversification of their economies. That is the greatest challenge to the sincerity of the industrial countries that propose to help us.

Morocco has unswervingly pursued a sound monetary policy, and when production revived last year, monetary circulation increased perceptibly but reasonably. We attach considerable importance to the maintenance of a realistic rate for our currency, to the independence of our issue institution, to the maintenance of order in our public finances; but, as Mr. Jacobsson said, those are bases on which everyone should build his house, but the house is not thereby constructed.

Monetary order, even on the international level, does not suffice, either, to ensure such a construction, i.e., a more equitable development of the world. As the experts emphasize, the purposes of the Fund and of the Bank seem more and more to converge.

Monetary plans for the approval of which we shall most firmly support the Fund will be those which most specifically stress this convergence, even if they are the most daring.

We have followed the activity of our new Development Association. Its terms are very flexible, weighing less heavily on the balance of payments than on conventional loans, as its Articles require. Morocco would like to see its task of encouraging the social sector more and more supported; there can be no doubt that investments in the field of teaching and human education are the only decisive ones. I therefore fully appreciate Mr. Black's

statement and the attention he devotes to the ties between the Association and the specialized agencies of the United Nations.

The absence of well-conceived plans may be a stumbling block to Bank and Association assistance. I have often feared that the dialogue with the member state would become unintelligible. We expect a great deal of efficiency from the development advisory service that the general report promises us. Now we may hope that the resources of our institutions and those it will obtain in addition will quickly be contributed in the area of our President's greatest concern, and also of the greatest hopes of our countries.

In short, the difficulties encountered have been pointed out here and, without complacency, emphasis has been placed on the fact that they were becoming greater: the Bank does not intend to evade them; it proposes to overcome them. Next year we shall have to pass judgment on this, also without complacency. We hope in particular that the Association will be able to fulfill its purpose by massive intervention that will no longer be inhibited by the inadequacy of funds. Meanwhile, however, we know to our sorrow that the normal man is the hungry man.

Morocco has always advocated additional international cooperation. It has in this respect taken part in a mutual undertaking of economic and financial collaboration with various African states, that will tend to create a more integrated community. Abandonment of the bilateralism that necessarily characterizes the first trade of Africa awakening to international life is regarded as an answer to the Fund's wish. Coordination of development policies, particularly in the industrial field, should also take care of one of the Bank's long-term preoccupations.

To that effect, an African economic committee is meeting at regular intervals and trying to build an international monetary system, a broadened African market, a development banking institution. These tasks will involve comprehensive assistance from the Fund and the Bank.

At a time when, to Morocco's sincere pleasure, new African states, such as Nigeria, Senegal, Sierra Leone, and Togo, are joining our institutions, and when others are preparing to do so,

I wanted to speak, at our Vienna meeting, of Morocco's effort which is at one and the same time practical and open. I shall therefore quite naturally express the desire to see us meet in 1964 on the African continent whose membership broadens and multiplies the tasks of our institutions!

Statement by the Governor for the Netherlands

M. W. Holtrop

Somerset Maugham, the British author, opens one of his books with a quotation from the Upanishad, reading: "The sharp edge of a razor is difficult to pass over; thus the wise say the path to Salvation is hard."

I have always been struck by the appropriateness of this simile in describing the toils of monetary authorities. If their salvation be in the fulfillment of that threefold object of economic policy—a sufficient rate of growth, implying full employment, stability of prices, and balance of payments equilibrium—they have to tread a narrow and ever continuing path, from which they can swerve neither to left nor right without falling into the traps of either inflation or deflation, overemployment or underemployment, deficit or surplus.

Looking back to the experience of the past year, I do not feel that we can be quite satisfied with our achievements in keeping to that narrow path. It is true that in the main industrial countries prices have been fairly stable. Yet price inflation has not come to a stop. Less reason for satisfaction has been given in the field of employment, in which we have been faced by the contrast between the buoyancy of employment in Europe as against the continuance of underemployment in the United States. Outright unsatisfactory has been our performance in the pursuit of balance of payments equilibrium, where we have been met with deficits, creating doubt about the stability of the two main reserve currencies and with surpluses causing changes in the parities of the deutsche mark and the Dutch guilder.

How is it, we may well ask, that we find it so hard to keep to the narrow path? Is it that we do not know the rules that should control our course? Is it that, knowing them, we do not apply them, perhaps for lack of proper instruments of policy? Or is it that our institutional arrangements are deficient and in want of being overhauled?

It is remarkable, and perhaps flattering for the monetary managers, that the criticism which has been uttered in connection with this unsatisfactory state of affairs has been directed far more to the alleged deficiency of our institutional arrangements than to a possible lack of proper management. It is the intrinsic character of the gold exchange standard that has especially been the object of discussion.

The gold exchange standard is being blamed by some for having an inherent tendency of creating too much liquidity, thus having an inflationary bias, and by others for having been unable—or at least for being unable in the long run—to create sufficient liquidity, thus having a deflationary bias. Thirdly, it is being blamed for being inherently unstable.

I should like to say a word about these charges.

Among those who blame our present monetary system for having an inflationary bias, there are some who argue that this is due to an intrinsic deficiency of the gold exchange standard as compared with a pure gold reserve standard. Though I would agree that our recent experience with the gold exchange standard has been on the inflationary side, I think it is necessary to reject the thesis that this is due to the intrinsic properties of the system. International monetary equilibrium demands that the volume of international liquidity should conform to the volume of the liquid reserves that the different countries, on the average, want to have, not in order to *spend* them, but to *hold* them. Whether the addition to existing reserves comes from the production of gold or from an increase in the currency liabilities of a so-called key-currency country does not make any difference. What matters is that this addition is not in excess of the amount the reserve-holding countries actually desire to add to their reserves. If it is, the excess will tend to be spent and spent again, thus creating an

inflationary situation. If, on the other hand, the creation of international liquidity lags behind the true demand for more reserves, a deflationary atmosphere will result.

There is no intrinsic reason why the gold exchange standard, more than a pure gold reserve standard, should lead to an oversupply of liquidity. The history of the gold standard provides us with periods both of abundance and of shortage of gold. The gold exchange standard may just as well bring periods of oversupply and of shortage of reserve media.

Meanwhile we must admit that, of late, the key-currency countries have been running too high a deficit and that, consequently, we are presently faced with an oversupply of liquidity. I come to this conclusion because it seems obvious to me that the surplus countries are presently not accumulating reserves they really want to hold, but rather reserves they tend to spend. Even if we find that they occasionally follow restrictive, or even deflationary policies, they evidently do not do so in order to increase their reserves, but to combat the inflationary consequences of excessive boom and overemployment. Their further policies, such as the discouraging of capital imports, the stimulating of capital exports, the prepayment of foreign debt, and the pursuit of other forms of compensatory financing, are clear evidence that they prefer not to increase reserves.

The Netherlands, in this respect, is a good example. On the basis of the over-all balance of payments surplus—not including transactions of the banks and compensatory transactions of the Government—during the period from the beginning of 1959 to the end of August 1961, they might have added $900 million to reserves. Yet, the actual addition to net reserves of the central bank and commercial banks—not deducting the drawings by the Fund—was only $160 million. The remainder was absorbed by prepayment of debt, by allowing foreign bond issues on the capital market, and by a very important increase in foreign lending by the banks.

I would conclude, therefore, that we have of late been faced with a situation of oversupply of international liquidity due to

balance of payments deficits of the key-currency countries that exceeded the desired increment of reserves by the main reserve-holding countries. This has been a situation of fact; it was not a necessary concomitant of the gold exchange standard as such. The recent important improvement in the basic balance of payments situation of the two key-currency countries as a matter of fact holds out the hope that this oversupply will not be continued.

In the face of recent experience, it is somewhat difficult to switch over to the consideration of the reverse problem, implied in the thesis that the gold exchange standard is incapable of creating sufficient liquidity. Discounting the contention that this has already been shown by experience, we must yet, I think, give serious consideration to the argument that, in the long run, the present key-currency countries might not prove to be willing, or to be in a position, to increase their currency liabilities to the extent of satisfying the demand for additional reserves of the reserve-holding countries. In the light of the present situation, this problem does not at all seem urgent. Eventually it may, however, deserve our close attention.

There is a connection between this problem and the third point of criticism directed at the gold exchange standard, namely, its alleged inherent instability, due to the right of conversion of key currency into gold, enjoyed by the holders of official reserves. Although in the year of uncertainties in the field of exchange stability which now lies behind us, monetary authorities have generally not changed their reserve holding habits, it cannot be denied that the power of the authorities in the reserve-holding countries to switch back and forth from noninterest-bearing gold to interest-bearing key currency creates a potential threat to the stability of the system. Paradoxically, one might even say that the system's stability is based upon uncertainty. For if it were inconceivable that the dollar price of gold might ever be raised, most of the reserve-holding countries might wish to hold only dollars and the gold exchange standard would tend to be transformed into a dollar standard, the United States having to buy almost all the world's gold. It is very doubtful that this would be a

desirable development. If, on the other hand, it were almost sure that the dollar price of gold would be raised, few monetary authorities would wish to continue to hold dollars, and the system would tend to revert to a gold reserve standard, for which no sufficient gold would be available. It is uncertainty, therefore, that presently controls the proper mixture of decisions.

It is an intriguing question whether one should prefer uncertainty to continue its present function, or whether one should try to replace it, as would be conceivable, by some arrangement that would give more certainty but less liberty of action. One might think of arrangements in which the Fund would play an intermediary role. One might also think of an agreement between the main reserve-holding countries and the key-currency countries on fixed limits within which the former shall maintain the proportion of their reserves held in gold and in key currency.

I do not want to elaborate on this special problem and its possible ramifications right now, but I thought it necessary to mention it in order to provide the proper background against which I should now like to say a few words about the proposed creation of additional resources for the Fund by way of stand-by agreements preparatory to borrowing under Article VII.

My first impression is that these proposals do not give an answer to the problems I have just discussed. Additional resources would have little bearing on the stability aspect of the gold exchange standard. They would, within the limits of the present suggestions, not offer a solution to the possible long-term problem of an insufficiency of liquidity creation. They might, on the other hand, tend to aggravate the problem of the present oversupply of liquidity.

In my opinion, our present problems are not due to any inherent deficiency of our institutional setup. Therefore, we cannot hope to solve them by changes in our institutions, but only by changes in our policies. A rectification of the present situation of imbalance cannot be brought about by the creation of new resources, but only by a reversal of the tendencies of the past. Both surplus countries and deficit countries will have to concen-

trate on re-establishing balance of payments equilibrium by the use of internal policies appropriate to that end. Deficit countries will have to determine whether their problem is one of internal demand inflation, that eats away at their capacity for exports, or one of cost inflation, that throttles their competitiveness. To combat demand inflation, monetary and budgetary therapies may be indicated; the suppressing of cost inflation will require the development of quite different instruments of policy. Surplus countries, on the other hand, may have to ask themselves whether their wage standards perhaps still lag behind their productivity and whether, more generally, their internal monetary and budgetary policies tend to reduce, or rather to perpetuate, their surpluses.

In the framework of these necessary mutual endeavors to restore equilibrium, more resources can at their best buy more time for the proper execution of the internal programs of action. If that time be not well used, they will only serve to perpetuate disequilibrium. There could be no greater fallacy than to imagine that the solution of our problems could be found—as it is sometimes suggested—in just feeding the excess reserves of the surplus countries back into the international circuit, so as to enable the deficit countries to continually finance their deficits. This would only create the perfect machine for perpetual inflation.

Does this mean that the idea of creating additional resources should be rejected? I do not think so. But it means that we have very carefully to ask ourselves for what purposes and under what conditions such additional resources might be needed, without their calling into existence the very dangers just described.

It seems to me that the experience of the past year has confronted us with two potential emergencies which might indeed create a justified need for additional resources. I am thinking of the possibility of (a) a substantial drawing by the United States, to cover a temporary deficit, which could not be financed out of the normal resources of the Fund and (b) drawings either by the key-currency countries or by other convertible countries, with the purpose of cushioning the shock of sudden uncontrollable short-term capital movements of a speculative nature.

In the first-mentioned case, the special position of the United States as a key-currency country might make a call on the Fund preferable to relying fully on its own reserves, however substantial these may be. In the second case, the availability of special resources might help to direct the burden of the drawing toward the countries that happen to be the beneficiaries of the short-term capital movements.

If the possible use of additional resources is explicitly confined to these purposes, their creation may indeed serve to strengthen and not tend to weaken the existing international payments system. The Netherlands Government is, therefore, willing to give serious consideration to the possibility of participating in a collective agreement between a number of industrial countries and the Fund with the purpose of giving the Fund, over relatively short but renewable periods, reasonable assurance of the availability of additional resources in case the afore-mentioned emergencies should indeed arise. Such an agreement would necessarily provide for objective criteria determining the magnitude of any individual country's actual contribution at the moment the Fund would want to call on the stand-by arrangement. It would also have to make provision for the reversibility of the loan agreement in case the lending country should, at a later date, find itself in a deficit position. Finally, it would seem essential that the lending countries, when the Fund should make a call on them, shall have the opportunity, by a collective judgment, to confirm that also in their opinion the special emergency, for which the additional resources have been set aside, has indeed arisen.

I hope that it will prove possible to work out in the coming months an agreement between the Fund and the main reserve-holding countries along these lines. I also hope that, for many years to come, it will not be necessary to put such an agreement into operation. For, as the Managing Director has rightly observed, these additional resources would prove their greatest value if they never would have to be touched.

So favorable an outcome will only be achieved, however, if all countries, whether they are presently running deficits or surpluses, while aiming their internal policies at full employment,

sufficient growth, and reasonable price stability, manage to adapt both their policies and their policy instruments to the simultaneous fulfillment of that absolute exigency of stable international financial relationships: the establishment of basic equilibrium in the external balance of payments.

Statement by the Governor for Spain

Alberto Ullastres

Another year has passed in the history of the International Monetary Fund. The Annual Report and the address of the Managing Director both make it plain that it has been a fruitful one. Allow me to call attention to one of the most striking events of that year, which is reflected in the presence of Portugal for the first time in this Board of Governors. No one will be surprised if I show my pleasure at this fact and give a most cordial welcome to this country and its representatives.

And now, a few words to summarize the development of the Spanish economy during the period that has elapsed since our last meeting in Washington.

The Report of the International Monetary Fund is eloquent in this regard. I will limit myself to pointing out that:

(1) The par value fixed in 1959 for the peseta has been strongly maintained in the international markets. This fact, combined with the constant growth of our reserves in spite of a constantly increasing liberalization of our visible and invisible transactions, has led to the declaration of the convertibility of the peseta for nonresidents, whereby the Spanish economy has thus aligned itself with the majority of the countries of Western Europe. From now on the peseta may be included among those currencies used by the International Monetary Fund for drawings of other member countries. This provides one more proof of its soundness.

(2) The process of liberalization in which, I repeat, substantial advances have been made, will continue at the rate that circum-

stances permit, in order immediately to meet a situation which will make possible the inclusion of our country in Article VIII of the Articles of Agreement of the International Monetary Fund. In its turn, the progressive internal liberalization will permit a greater flexibility in our economy, with a view to future integrations.

(3) Finally, in the Annual Report itself reference is made to cancellation by Spain, in the first months of 1961, of all the credits obtained from the International Monetary Fund, from the Organization for European Economic Cooperation, and from private banks in North America, because of the Stabilization Plan. These credits practically were never used.

Our present task is economic development. I now wish to add to the statement made yesterday by the Governor of the Bank for Spain that the good prospects for our efforts in behalf of the economic development of the country are based on the present possibilities for expansion; a wide margin of liquid savings produced by the stabilization climate that makes possible noninflationary financing of economic development; foreign reserves to meet and support that process; the growing productive capacity of Spanish industry, resulting from greater efficiency; and a satisfactory international climate which results in direct foreign investments, in stock exchange transactions, and in credits of all kinds at our disposal.

With the help of all these means, we find ourselves at a stage when the Spanish economy has reached normal levels of production after a temporary decline in activity during 1960, which is recorded in the Report of the International Monetary Fund and which has been at present completely overcome.

The economic development of countries requires the cooperation of international agencies, especially those that have among their objectives the promotion of this development. But the task of other organizations is no less important. I refer particularly to the International Monetary Fund, which should be prepared to cope with the imbalances and maladjustments which may be experienced by its member countries as a consequence of the unavoidable necessity of speeding up their economic progress.

This is the reason why we in my country look with such interest upon the proposals put forward to increase the resources of the International Monetary Fund. International monetary flexibility in connection with monetary discipline may help underdeveloped countries to make substantial headway on the road of economic progress, and assure international stability combined with the convertibility of many currencies, without recourse to monetary and commercial restrictions.

Statement by the Governor for the United Arab Republic

Akram Darey

It is a great pleasure for me to join our distinguished colleagues in congratulating the International Monetary Fund on its comprehensive Report, to express our deep appreciation for its excellent achievements during the course of the last year, and to thank Mr. Jacobsson for his most interesting and instructive opening statement. Great and regular efforts are made to keep this institution developing along with the evolution of the members' financial and monetary needs and potentialities. The Fund has been reviewing its practices with a view to introducing the necessary adjustments. As was pointed out in the Report, the Articles of Agreement provide considerable flexibility in many respects and give latitude for constructive arrangements that will meet the needs of the members according to changing circumstances.

It is encouraging to note that, during the last few years, more flexibility has been shown with respect to the use of the Fund's resources. At the Annual Meeting of last year, Mr. Jacobsson declared that assistance by the Fund should not be regarded as a crisis measure available merely in emergencies. Members' drawing rights are now considered as part of their reserves and they should not hesitate, if necessary, to make use of these rights.

The provision in Article V, Section 3, of the Fund's Articles of Agreement which limits a member's drawing to 25 per cent of its quota has been waived in many transactions. Moreover,

by approving a combined drawing and stand-by arrangement that raised for the first time the potential net use of the Fund's resources by a member above 100 per cent of its quota, the Fund has created a precedent which, we are confident, it will continue to take into consideration in the future.

The Report refers to the replenishment of the resources. The Executive Board is examining the use of the Fund's borrowing rights. Although its resources seem to be quite large, there is always the possibility, as Mr. Jacobsson noted, that circumstances might arise in which it might need additional supplies of certain currencies.

The question of international liquidity has been discussed by economists and has given rise to the publication of important studies unrivalled since the entry into force of the Bretton Woods Agreements. Many proposals have been put forward with a view to relieving strains on world liquidity. I have been glad to know that the Executive Board has begun to consider suitable means in accordance with which the Fund can eventually replenish its holdings by borrowing the currencies required.

A recent decision taken by the Fund proves its success in adapting itself to changing circumstances. It has been held that the Articles of Agreement do not preclude the use of the Fund's resources to finance adverse balance of payments due to capital movements. Such flexibility of thinking is a source of great hope, since it would have otherwise been difficult to apply in a proper way provisions of Articles of Agreement laid down more than 16 years ago.

An important step toward the realization of one of the objectives of the Fund has been taken early this year when 11 member countries accepted the obligations laid down under Article VIII. The greater equilibrium attained in the international monetary sphere, and toward which the Fund has largely contributed, can afford a source of satisfaction to all of us, and especially to those countries which are trying willingly to develop their economy.

We are aware of the situation of developing countries which comprise the majority of the world population. Many of them

have won their political independence and are looking forward to satisfying their reasonable expectations for economic development. The Fund obviously does not provide long-term credit, but recourse to the International Monetary Fund on the part of less developed countries will go on increasing, since they are very likely to meet temporary balance of payments difficulties while carrying out their development programs.

The problems of developing countries have been, however, accentuated by the fact that the terms of trade have been generally moving in favor of the industrial countries. The less developed countries have been seriously affected by the large fluctuations in their incomes caused by the great instability in world commodity prices. Their development efforts have also been handicapped by the quantitative restrictions imposed on their products by the developed countries. The Fund's Annual Report refers to the contrast between the strengthening in the liquidity position of most of the industrial countries and the difficulties of raw material countries. This problem has recently received some attention, and a report bearing on this subject was presented early this year to the United Nations. It it gratifying that the Fund has, on certain occasions, provided help to countries suffering from payments difficulties arising from fluctuations in commodity prices. But I think there is still more ground to be covered by the Fund, in cooperation with other international organizations, in an effort to bring about an adequate solution.

International cooperation in the field of economic development was stressed in the Charter of the United Nations. It stipulates that the United Nations shall promote higher standards of living, full employment, and conditions of economic and social development. It imposes an obligation upon member countries to take joint and separate action for the achievement of these purposes. The fact that international institutions and many developed countries are giving attention to this problem leads us to look to the future with confidence.

Speaking about economic development, may I refer to our country, the United Arab Republic (U.A.R.). Only one year has

elapsed since we started the new development program which aims at the harmonious development of the economy in order to secure balanced growth and, in due course, a self-sustaining economy. I am happy to point out that while prices in general remained stable in the course of last year, production increased appreciably in the various sectors of the economy. We are taking the necessary measures with a view to simplifying the exchange system and avoiding inflationary pressures. The implementation of the development plan in both regions of the U.A.R. will be instrumental in achieving the welfare of our country, the main goal of our revolution.

Statement by the Governor for Norway

Erik Brofoss

Developments in the field of international finance since our last Annual Meeting demonstrate only too clearly that in our deliberations now we should focus attention on the problem of the adequacy of international liquidity.

Over the last decade, the volume of international liquidity has shown a great degree of elasticity. The gold stock has been supplemented by an increase in the supply of the two key currencies, the dollar and sterling. This expansion in the holdings of those currencies has, in the past, been instrumental as a stimulus to world trade and production. Without it, economic growth would not have materialized at the same rate.

It is of vital importance to our economies that the dollar and sterling can play the same role in sustaining economic growth also in the future. Thus, it is in our common interest that an international credit expansion can continue to take place and, consequently, also, that devices can be designed by which key currencies can be relieved from pressures to which they might be exposed.

Such pressures are most likely to come from the one third of the funds held by the private sector, largely by financial institutions

and business corporations. Motivated by economic, as well as political and speculative, considerations, these funds can be moved from one currency into others under the present system of convertible currencies and of relatively free capital transfers.

Personally, I am not convinced that the freedom of transfer of such funds can be considered an indisputable blessing. Events in the 1920's and 1930's, as well as in the postwar years, prove that movements of short-term capital have caused crises more often than they have promoted economic growth. In my opinion, we would be better served with some system of "traffic control." It seems to me that such a "mixed" system was envisaged by the founding fathers when they made statutory in the Fund Agreement only the liberalization of current transactions.

However, as the freedom of movement of capital seems to have become an end in itself, the decision taken by the Fund Board, on July 28, 1961, that Decision No. 71-2 does not preclude the use of the Fund's resources for capital transfers, was only the logical consequence of the change in philosophy and aims.

Then, logic must also take us one step further by providing the Fund with adequate resources in order to make it able to discharge the responsibility for the proper functioning of an extended system of convertible currencies. The need for such extra funds will, however, largely depend upon our success in avoiding that the various countries pursue conflicting policies which push and pull migrant capital.

At a time when the word "harmonization" has become the fashion, one may be allowed to make a plea for more consultations and for the improvement of the institutional machinery which can foster the feeling of joint responsibility for the successful operation of the international payments system.

The good offices of the Fund could be mobilized to serve that end without interfering with the activities of other bodies which, on a regional basis, are operating in the same field. I have particularly in mind the Organization for Economic Cooperation

and Development, with the European Monetary Association, which has an important role to play. The weakness of the "Basle Club" follows from its character of "closed shop": we all hear about the operations, but most of us know nothing concrete about them.

However, as we have to admit that we are only in the initial and primitive stages of a process of harmonization of national policies, it is the more imperative that there are in the hands of the Fund resources sufficient to enable it to rectify international disequilibria which are likely to occur also in the future.

Against the background of events and experience in recent years, and even more if one recalls the calamities of the interwar period, I agree with Mr. Jacobsson that the composition and the size of the Fund's resources are not adequate to support a healthy international financial structure.

As to the way in which these resources are to be replenished, I should personally have preferred an automatic system by which a country, which accumulates international reserves on a massive scale in excess of its own needs, would be under an obligation to place part of the funds at the disposal of the Fund. If we really want an international payments system which will promote economic growth and not become an obstacle to it, such an automatic system will sooner or later have to be devised.

However, as all of us, in a greater or lesser degree, still think and act in national compartments, such a system remains a matter for the future. I realize that we have to look for the second best solution. I therefore welcome Mr. Jacobsson's idea that the Fund should make use of its power under Article VII of the Fund Agreement and conclude borrowing arrangements with the main industrial countries which are accumulating gold and convertible currencies.

It follows from my premises that the actual borrowing transaction between the Fund and the lending country should be made under a firm commitment from the latter to lend the Fund its own convertible currency. One cannot rely upon ad hoc improvisations. There has to be an agreed institutional system with

predefined obligations for the contracting parties. The fundamental guiding principle must be that the funds are available at any time for the Fund's transactions when needed. The limit of the commitment of the individual countries will have to be agreed upon after due consideration of the strength of their payments and reserve positions.

If it is deemed opportune to include not only the main industrial countries, but also the smaller ones, the Norwegian Government will consider favorably a request for participation in such an arrangement. Our contribution will, however, have to be on a modest scale. The currency reserves of Norway are limited, and our economy is very dependent on exports which fluctuate violently with business cycles. Close to 50 per cent of our export earnings come from shipping.

Unfortunately, while during recent years there has been a marked development toward liberalization of international trade, the shipping policy of many countries has moved in the opposite direction. This trend has been a matter of grave concern to the Norwegian Government.

In earlier years, the Fund has paid comparatively little attention to bilateral agreements and restrictions on payments and transactions in the shipping field, although they are demonstrably in conflict with the spirit as well as with the letter of the Bretton Woods Agreement. In recent years, several consultation reports have commented upon shipping discrimination. We want to express our appreciation to the Fund administration, and we hope that this aspect of economic relations will also in the future find its proper place in the Fund's consultations with member countries.

STATEMENT BY THE GOVERNOR FOR THE PHILIPPINES

Andres V. Castillo

First of all, I would like to associate myself with all my colleagues who have expressed our gratitude to the Austrian

Government for its hospitality in making available to us the facilities of this fair city, with all its cultural and historical associations.

Indeed, this meeting may add to the list of numerous historic events connected with it, for it appears that we have reached some kind of a watershed in postwar economic policy. This year's Report of the Executive Directors points up quite clearly the fact that monetary policy as exercised by the various individual countries must now look beyond national borders if it is to be in tune with the needs of our times. For some time, people took comfort in monetary theories which seemed to separate the internal and external sectors of a national economy and which seemed to imply that it was possible to put the primary focus on domestic policies without too much regard for their international implications. Even when such international implications were recognized, the need for a more sophisticated international payments mechanism was not completely realized so long as cyclical fluctuations moved in phase among the various economically influential countries, or so long as cyclical fluctuations responded to what this year's Report refers to as "basic balances of payments, excluding transitory short-term capital movements."

With increasing convertibility in recent years, however, the possibilities of such short-term capital movements have multiplied. In the period under review, such capital movements have even merited the adjective "perverse." Countries enjoying a boom naturally resort to standard countercyclical measures, such as raising bank rate; but this in fact has the effect of attracting short-term money from other economies which are in recession, where interest rates have been lowered in order to stimulate activity. Thus, instead of remedying the situation, matters become worse.

It is gratifying to note that the international repercussions of both restrictive and expansionary measures are now beginning to be more frankly confronted, and that international cooperation among central bankers was resorted to in this instance in order to tide over the difficulties of the world payments system as a whole.

However, such cooperation among central bankers, implying in the present case that the interest rate mechanism was not to be allowed to work, can be little more than a stopgap measure. I feel that whatever system is worked out in the future should not ignore or try to suppress adjustments in interest rates which are, after all, a part of the price mechanism. I am not myself altogether convinced that movements in interest rates alone (even when reinforced by expectations of par value changes) are sufficient to account for the perverse movements of short-term capital.

Likewise, this year's Report stresses that solutions should not be sought in restrictions. However, this seems to run counter to Article VI, Section 1(a), of the Articles of Agreement which states: "A member may not make net use of the Fund's resources to meet a large or sustained outflow of capital, and the Fund may request a member to exercise controls to prevent such use of the resources of the Fund. If, after receiving such a request, a member fails to exercise appropriate controls, the Fund may declare the member ineligible to use the resources of the Fund." Apparently this Article has lost much of its significance, and it seems more in keeping with the spirit of our times to follow along the lines of the observation in this year's Annual Report "that solutions for problems arising from capital movements are being sought primarily along lines other than restrictions, so as to safeguard the existing degree of convertibility of currencies, which has been established after so many efforts."

This leads me to certain features we find elsewhere in the Report which give some rise for optimism. In various sections we are told that there has been a wider use of currencies other than the dollar and sterling. We are also told that increases in foreign exchange reserves are held increasingly in untraditional forms, that is to say, not in commercial banks in the United States or the United Kingdom, but more in commercial banks elsewhere, and especially in "Euro-dollar" or "Euro-sterling" deposits. We are also told that the drawing rights in the Fund are increasing, thus augmenting the foreign exchange resources of member countries.

These features in themselves point out certain ways by which the international payments system can be improved. For one thing, the number of key currencies, so far largely limited to the dollar and sterling, must be increased so as to comprehend other strong currencies of the world. This has now become more than just a distinct possibility, but it is not enough to do this alone. The countries issuing such other strong currencies should undertake the banking and marketing services which have until now been provided by the City and Wall Street.

We are also glad to note that this year's Report recognizes drawing rights on the Fund as part of foreign exchange resources which countries can fall back on as reserves. A freer and more flexible use of these drawing rights, combined with the rise of new reserve centers with new key currencies supported by ancillary banking and marketing services, would go a long way toward remedying some of the shortcomings which we find in today's system. I am not sure that this would be the complete solution, but certainly, while we search about for one, there can be no harm in proceeding along these lines as a start.

In moving toward an improved world payments mechanism, I would like to reiterate the warning voiced by my predecessor last year which was founded on studies by Dr. Robert Triffin. It may not be enough to use national currencies as international reserves; to do so may lead us back into the foreign exchange disorders of the 1930's. A central pool of reserves has been proposed in some quarters as a remedy. Perhaps this is not quite feasible at present, but a determined effort to realize it should be made. This would surely represent a step toward some pooling of reserves and would, I believe, reduce the likelihood of disequilibrating money flows between reserve centers if the present cooperation among central bankers can be kept up.

A few other things pointed out in this year's Report still call for concern. The most important among them are the continued adverse trends that plague the underdeveloped countries. My distinguished predecessor, in previous meetings of the Fund, has stressed the disparity of economic progress between the developed

and underdeveloped countries. It is doleful to note that, after these many years, we are still constrained to point out this disparity. Many underdeveloped countries have experienced once again falling international reserves, falling export prices and adverse terms of trade, and adverse trade and payments balances. Surely this widening gap between rich and poor countries cannot go on much longer. We take note of the fact that new, and we hope better, organizations for coordinating aid by developed countries have been initiated, such as the Organization for Economic Cooperation and Development, but their value has yet to be tested, and until such time as the majority of underdeveloped countries have attained self-sustaining growth, we will continue to speak out for effective measures on their behalf.

Equally distressing for at least some of us is the continued existence of currency discrimination even by countries who have theoretically adhered to Article VIII. It strikes me that restrictions by currency or currency area cannot qualify as trade restrictions but as payments restrictions, and it is disturbing to read announcements every so often from countries which claim to have attained external convertibility that such and such items from certain currency areas (particularly the dollar area) are still either being freed from quantitative limitations or have had their quotas raised, thus attesting to the continued existence of currency discrimination. I submit that it is within the Fund's competence to sweep away this anachronistic discrimination once and for all, at least for countries with formal or *de facto* external convertibility.

We note with encouragement that in some underdeveloped countries there has been greater success in observing fiscal discipline. We also note with gratification that the Report enjoins the industrial countries not to transfer the burden of economic adjustment to the primary producing countries.

The Fund has been known throughout all these years as being primarily concerned with stability. We who are responsible for monetary policy in our respective countries subscribe to this belief in stability, provided that this stability is a factor for

growth and does not serve as an excuse to stultify it. We are glad to note this year that the Fund "is equally anxious to contribute, within the powers given to it, as its Articles of Agreement stipulate, 'to the development of the productive resources of all members.' " I welcome this as an additional sign of growth-mindedness in the Fund, and hope that it will find full fruition in the future.

In conclusion, I am pleased to say that the program which was initiated by my country last year looking toward the lifting of exchange controls has been further extended this year. The majority of exchange transactions are now governed by the free market rate of exchange. The progress of this program has been such that its completion only awaits the passage of complementary legislation which would safeguard economic stability, provide for increasing sources of government revenue, and protect deserving industries. We are confident that the necessary legislation can be substantially secured from the next session of our Congress, which takes place early next year.

Statement by the Governor for Belgium

Hubert Ansiaux

The past 12 months have been marked by important movements on the international exchange markets that have developed in favor of gradual elimination of exchange restrictions, greater freedom in capital movements, and re-establishment of convertibility of the currencies of the chief European industrial countries. This development, which reflects undeniable progress, nevertheless requires us to seek a fresh equilibrium in international financial relations.

That is why the Monetary Fund has been led to adapt its policy to the course of events.

We can rejoice at the way in which it has accomplished its purpose.

Among developments worthy of note are the important operations concluded by the Fund during the past 12 months.

The Managing Director of the Fund, in his introductory remarks, drew the conclusion that, should the Fund have to cope with the large drawings for which countries with large quotas might apply, its holdings in convertible currencies might prove inadequate, and that it would therefore be prudent to contemplate now what principles should be followed and what technique employed by the Fund in using the borrowing power attributed to it by Article VII of its Charter.

This possibility merits thorough examination. The Fund has been able to increase its resources through a general increase of quotas and adjustment of individual quotas. The Fund's resources are indisputably ample to enable it to attend to all normal operations that it may transact. Therefore, we do not speak of obtaining new funds for normal operations, but only for exceptional operations that might appear to be useful under exceptional circumstances. Furthermore, the circumstances would have to be such as to affect the stability of a key currency or provoke short-term capital movements of a magnitude likely to upset the equilibrium of the international monetary system.

This is, of course, merely conjecture, and we hope that it will never occur.

Actually, the basis of satisfactory equilibrium in international transactions can be found only in the policy that each country must follow to ensure equilibrium in its internal finances and stability in its balance of payments.

There is no reason to fear that the chief member countries of the Fund, particularly those that bear particular responsibility in the international field, will cease to apply so obvious a rule in the conduct of their affairs.

Any possible interventions by the Fund can therefore be only of a supplementary and transitory nature—otherwise they would not be effective.

There are, of course, already ways of remedying a temporary insufficiency of means for international payments. The recent

cooperation shown by the central banks is proof of this; it is reasonable to think that it will be maintained and even strengthened in the future.

Suppose, however, that it should be necessary, under exceptional circumstances, to have recourse to exceptional means and to concentrate the latter in the Monetary Fund. In this regard, I think the procedure of lending for a term corresponding to the needs is adequate.

It is, of course, desirable for the borrowing technique to be perfected and for possible lender countries to adopt the internal measures necessary to enable them to lend their assistance at the desired time.

Introduction of this machinery, which should provide for thorough and complete consultation between the Fund and possible borrowers, would facilitate to the maximum the provision of the needed assistance by countries who believe themselves to be in a position to grant it, according to certain pre-established principles.

Without entailing any a priori commitment on the part of the lender countries, this system would nevertheless make it possible to count on the assistance of countries whose balance of payments developments and reserve positions would justify intervention, within the framework of a collective effort, with the support of measures applied under the aegis of the Fund by the countries receiving the aid granted.

In this regard, I am thinking particularly of the statement made by the Managing Director at the opening session that the Fund will not in any way weaken the principles governing the use of its resources.

Credits granted to the Fund should in any case enjoy the exchange guarantee accorded to all of the Fund's holdings and should be immediately repaid, should the position of the country that provided the credits be reversed.

I am convinced that it is possible to arrive at some satisfactory arrangement on the bases I have just mentioned.

Beside manifesting the solidarity that unites the chief industrialized countries and the other members of the Fund, such an arrangement would enable the Fund to assemble sufficient aid at the proper time to intervene effectively to maintain equilibrium in the international monetary system.

My country is therefore prepared to enter into negotiations with the Fund and with the other countries likely to contribute to the attainment of that goal, with a view to drawing up the technical terms and conditions on which the contemplated operations might be concluded. It is also prepared to give its consent, when the time comes, for the conclusion of such operations, provided that they meet the terms agreed upon and it is in a position to assist without compromising the stability of its own situation.

I hope very sincerely that negotiations will be conducted along those lines, and I would be happy to take part in them.

I rejoice that these negotiations will be carried out with the Fund under the leadership of its Managing Director, Mr. Per Jacobsson, whose term of office has been opportunely extended.

Statement by the Governor for Australia

Harold Holt

In 1959, when the Board of Governors approved the general increase in the quotas of Fund members, it seemed that the Fund's resources would be adequate to its needs for at least some years ahead. But, as the Managing Director has pointed out, swift changes have occurred since then in the balances of international payments. It is now evident that the resources at the command of the Fund are barely adequate for present purposes and could be quite inadequate if any further substantial demands were made in the near future on the Fund's holdings of certain convertible currencies. We must therefore agree with the Managing Director in concluding that the composition and size of the Fund's resources are not adequate, without further strengthening, to support a healthy international financial structure.

We must also agree with him when he suggests that this shortage of resources might be remedied more acceptably in present circumstances, not by an increase in particular quotas, but by using the Fund's existing borrowing powers and ensuring that the Fund will have ready access to needed convertible currencies through firm credit arrangements with the main industrial countries. The Australian Government strongly supports the proposal the Managing Director has made in this regard. We hope that the financially strong countries that could assist to give effect to this proposal will see advantage to themselves as well as to other members in doing so. But Governors will, of course, wish to consider the details of any machinery or other arrangements under which effect would be given to the proposal.

It would, indeed, be an unfortunate reflection on our powers of invention if we were to permit the continued growth of world trade and payments to be hindered or frustrated by a shortage of internationally acceptable means of settlement. Clearly, the world's present stock of gold is not nearly adequate, of itself, to provide all countries with the currency reserves they need to cope with even normal fluctuations in their balance of payments. The part played by the two major reserve currencies, the U.S. dollar and sterling, is thus a highly important one. But these and other currencies need the support of adequate holdings of gold which is the ultimate medium of settlement in international payments. It is therefore essential that the world's stock of gold should increase fast enough to keep pace with the growth of world trade and payments and the expansion of international liquidity that must go along with it. In this regard, we cannot continue indefinitely to ignore the significance of the price of gold. The Managing Director has referred to the temporary flight from currencies to gold and the steep rise in the price of gold in London that occurred last year. In this event, we have evidence of the elements of instability to be found in the existing situation. Sooner or later the price of gold will have to be raised to a level that corresponds to the cost of producing the needed annual increase in the supply of the metal.

Gold stocks are, of course, a considerable factor in preserving confidence in the reserve currencies. If this confidence is undermined, these currencies will, obviously, be unable to perform their function effectively. In particular, their position should not become vulnerable to short-term capital movements. Confidence would be powerfully reinforced by the assurance that these and other currencies of Fund members are backed by resources held by the International Monetary Fund or readily accessible to it.

I am afraid, however, that we shall still be far short of having solved all of the problems in this field when we have made satisfactory arrangements for the full replenishment of the Fund's resources as and when they are needed. It is obvious that the Fund should be assured of the resources needed to discharge its function of assisting its members through temporary balance of payments difficulties. It should be just as obvious that those countries should not, in their efforts to correct their position and avoid a chronic imbalance, be unduly hampered by restrictive trade and payments arrangements in other countries. The problem, in other words, does not end with the question of international liquidity. It extends to the tendency toward persistent imbalance between primary producing and industrialized countries; and, associated with this, is the imbalance between the developing and the more highly developed economies.

I touched on this matter in what I said yesterday in the discussion of the Annual Report of the International Bank. I should now like to add a little to what I said then. The Fund Report shows that, whereas the value of the exports of the United States increased by 19 per cent and the exports of other manufacturing countries by 15 per cent between 1959 and 1960, the value of the exports of the primary producing countries rose during the same period by only 5 per cent. Moreover, the Report points out that by the end of 1960 the over-all level of primary product prices was some 6 per cent lower than at the beginning of the year. This is a pattern that has been persisting from year to year; exports of manufactures grow strongly in volume and value while, for the most part, exports of primary products rise only slowly in value, despite a steady increase in the volume of such

exports. In short, the trend in the terms of trade seems to be chronically unfavorable to the primary producing countries. These are, in the main, the less developed nations of the world.

This is not a problem which can be dismissed by saying that it is all a matter of supply and demand. For this is a problem that is greatly aggravated by the policies followed by many of the industrialized nations. These nations themselves produce great quantities of primary products under various domestic price support arrangements and other protective devices. This is a sector of trade to which they have not extended, in any significant degree, the measures of liberalization which have done so much in recent years to carry the world forward to a free, multilateral system of trade and payments. On the contrary, trade in agricultural products continues to be hampered by quantitative restrictions, managed markets, state trading, and other measures which have the effect of encouraging relatively high-cost domestic production and denying access to competing products from other countries.

The failure of many industrialized countries to liberalize their trade policies in relation to agricultural products has raised a barrier against the achievement of the liberal trade and payments arrangements envisaged in the Articles of the Fund and the General Agreement on Tariffs and Trade. Where notable and encouraging progress has been made toward a liberal trading regime for industrial products, discriminatory restrictions remain to fetter trade in primary products. Indeed, in this sector, there has been an increase rather than a reduction in the incidence of discrimination against many countries.

For this reason, primary producing countries feel grave apprehension about the trade and payments regime that might emerge from the movement toward economic integration in Europe. The common agricultural policy of the European Economic Community, it is true, has not yet been formulated; but the trend of thought in Europe seems unfortunately to be turned in the direction of continuing high protection for agriculture. Indeed, pursuit of the policies at present being supported in Europe could add also to the problem of agricultural surpluses.

I am sure it would be the overwhelming desire of the members of the Fund that any arrangements made in the course of the development or enlargement of the European Economic Community should not do damage to the trade of third countries. Certainly, one of the principal purposes of the European Common Market would be expanded trade both within the Community and with the rest of the world; but, clearly, that should not be achieved by policies tending to reduce the trading opportunities or prospects of outside countries. Common market arrangements can only be justified in terms of the contribution they make to the freer flow of world trade and payments. It would be a most unhappy outcome for the world if, having come so far along the road toward achieving the Fund's objective of a liberal, multilateral trade and payments system, we should now turn away from that objective toward exclusive, discriminatory regimes based on regional trading blocs.

I have referred to the problem of agricultural surpluses and the possibility that it might be made worse by agricultural protectionism within regional trading groups. But even if this result is avoided, it seems certain that a serious problem will remain. For, on the one hand, we have the production of some commodities continuing at levels too great for absorption by the world's markets at commercial prices; and, on the other hand, we have millions of persons in the underdeveloped countries who cannot afford to pay commercial prices for all of the food and other commodities they need. We shall have to seek ways of reconciling the contradictory elements now to be found in this situation. I would therefore urge that the industrialized countries should approach sympathetically any constructive proposals for stabilizing commodity prices and dealing with the problem of surplus production.

Yesterday, I spoke of the hope we could draw in a troubled world from our meeting in Vienna and the constructive work of the four international organizations represented here. If this hope seems optimistically based, it is fortified by the knowledge that there is to be found throughout the world today what the President of the International Bank has described as a very sizable guild of men and women who, by reason of their pro-

fessional experience and competence, reach the right kinds of development decisions. Those of us who can claim membership, however temporary, in this guild feel it is through the lines of communication flowing from the institutions and from the personal contacts we make with each other within this guild that the economies of the world can be strengthened, and thereby the prospect furthered of a world prospering and at peace. We are all indebted to the men and women of these institutions for the help they bring to us, for the way they link effectively together our individual efforts, and for the service which each in his or her own way is rendering to mankind. The world has much at stake in the successful operation of these institutions, and in concluding my contribution to this year's discussion I wish the institutions and all associated with them success in the work of the year ahead.

Statement by the Governor for Ceylon

Felix R. Dias Bandaranaike

First of all, I should like to extend my thanks to the Managing Director, his Deputy, and his energetic staff, and to the Board of Executive Directors for the efficient conduct of the business of the Fund and for the cooperation extended to Ceylon whenever that cooperation was sought.

In introducing the Annual Report, Mr. Jacobsson has referred to the pressures on the two main currencies of international trade, the dollar and the pound sterling. The major cause for concern has been the ever-increasing gap in the growth rate between the developed countries and the underdeveloped countries. This, no doubt, is a problem that must be tackled on many fronts. We saw three years ago that action could be taken to provide a further backing to the reserves available to each member by increasing the resources of the International Monetary Fund. This has been a very useful step for the members as a whole to maintain and expand their trade, but the key problem remains as before, as revealed by the 1961 Report of the Fund, presented to us at this meeting, in its discussion on the position of the

primary producing countries, as well as some of the more advanced countries. The export trade of the primary producing countries was helped by the boom in industrial countries, but the fact remains that their current account position has deteriorated—a deterioration by a quantum that exceeded the inflow of capital and economic aid. This, no doubt, is going to be the key problem of this quarter of the second half of this century, and upon its solution will depend the prosperity and happiness of a large part of the world.

We believe the Fund's Executive Board, with the able guidance of Mr. Jacobsson, the Managing Director, will work out some practical procedures and changes in the coming months to meet the present situation, the circumstances and origin of which also happen to be debated by economists. These changes may be important, may be useful, and may even be timely to improve the world's trade, and we will all, I hope, share in that expansion of the world's trade; but what is of significance is that recently international organizations, including the Fund, have begun to heed the special balance of payments problems of underdeveloped countries.

The facts are clear that the terms of trade of primary producers vis-à-vis industrial countries have deteriorated; the uneven tempo in the expansion of the economies of industrial countries, and the steps they have been obliged to adopt to meet this over the last ten years, added to the quota of troubles of the primary producers and minimized even the aid that has been given; and further planned economic development with any degree of reliance on a substantial export surplus has become hazardous. In this situation, we welcome the statement of the Executive Directors in their Annual Report, which is as follows: "In particular, the primary producing countries ask the industrial countries not to seek solutions for the problems of their farmers, miners, or industrial producers, by means of policies that transfer the weight of adjustment onto the economically weaker producers in the other countries. The strength and wealth of the industrial countries should be used not only to give economic aid to the countries

with lower per capita incomes, but also to absorb more readily the growing diversity of their products."

While welcoming such a statement, it would be natural for the primary producing countries to expect that consideration be given to a more positive role by the Fund in the matter of giving its assistance to the underdeveloped countries where the reserves problem has to be contended with in any scheme of worthwhile development.

Today, the peoples of the world will not stay quietly just watching their unused resources while the countries around them, particularly those with planned economies, go racing past to achieve levels of growth unheard of before.

We welcome the suggestions made by our Managing Director to increase the resources of the Fund by close consultation with the countries that are able to release such resources, and certainly there are such countries today. But, even so, the question still remains whether, with the low quotas of the less developed countries that need assistance and with the strict Fund policies on each segment of the quota to be drawn after the initial gold tranche, there is very great hope for rapid economic development for the small countries.

It is a highly debatable theory, whether the mere improvement of the economies of the industrialized countries, with or without the assistance of Fund drawings, is bound to lead to the employment of the large unutilized resources of the less developed countries and the consequent increase in their trade. We can only hope it will, but there certainly seems to be no assurance from past experience that this will happen. Since the Fund management appears to put its faith on this happening, i.e., the simultaneous development of trade or assistance for development of trade in the less developed countries, let us hope that the Fund will through its "consultations" and other procedures secure through the industrially advanced countries a degree of expansion that will stimulate the trade and payments position of the less developed countries.

It is often said here that a country must mobilize its own resources in looking for assistance from outside. We have raised

taxes on many sources and have extended the tax net wider and wider; we frequently mop up all savings available by the issue of public loans, which, I must say, have always been well supported by institutional and other investors, and we have taken other measures in the field of credit and consumption; but the assistance we get from external sources is just a mere fraction of our requirements to maintain a steady and expanding rate of economic growth.

I think a few words on the balance of payments problems of the underdeveloped countries deserve to be said in this gathering. It is clear, of course, that the development programs of underdeveloped countries now are not disjointed, haphazard adventures. They stem from planning of one type or another and have as their base the social and political philosophy of the mass of the enfranchised people who return the members of their choice to Parliament. Thus, the programs of these countries are varied, but the objective is clear, namely, a continuous improvement in the social and living standards of the people. Such an achievement is not possible on the type of "stop-go" policy which industrial countries have been in the past compelled by circumstances to follow. It is also not possible for those economies to live and prosper in isolation. While the causes of balance of payments deficits in underdeveloped countries are many, one stands out prominently, namely, the shortage of external development finance and the compelling tendency to proceed continuously with development programs even at the risk of inflation.

Now we all know the Fund does not like this, but the remedy is also partly with the Fund, namely, consideration on a broad front of policies to meet the problem of inadequacy of reserves of all countries, whether industrial or primary producing countries.

As you will have seen from the Fund Report, from the many speeches of the representatives of the industrially advanced countries, and from the not so few speeches of those from the less advanced countries, all of us, including the Fund, have problems; but there is no reason why with proper cooperation, which is the *sine qua non* of this international institution, these problems could not at least be alleviated, if not even solved, to the material satisfaction of all concerned.

Statement by the Alternate Governor for Ireland

Maurice Moynihan

May I, at the beginning of my remarks, associate the Irish delegation with the general expression of grief at the tragic death of Mr. Dag Hammarskjold and with the tributes which have been paid to his work for peace.

We in Ireland have followed with attention the various plans put forward in the course of the discussions on the problem of international liquidity. We have ourselves made a contribution, in the form of a memorandum which we submitted to the Executive Board in January last. The valuable ideas outlined by Dr. Jacobsson in his annual address have aroused our particular interest. They will, we hope, be favorably considered by members generally.

The experience of the past two years, in which each of the two principal international currencies has come under strain, has caused special attention to be directed to the possibilities of improving the present mechanism of world payments. New techniques are considered necessary if strains on these currencies are to be avoided and maximum economic development is to be achieved. All commentators agree that the International Monetary Fund must in future play an even more important part than it has played in the past.

We were pleased to note that there was a large measure of agreement in the discussions at the Executive Board on a number of matters which had been referred to in our memorandum. Among these was the recommendation that recourse to the facilities of the Fund should be regarded as a normal method of supplementing reserves rather than as a crisis measure. The passage in the Report, which sets out so clearly the principles by which the Fund is guided in regard to the use of its resources, contains several positive indications of the Fund's favorable attitude to more normal recourse to it by member countries.

Somewhat allied to this point is our recommendation that there should be greater flexibility in lending operations. Particularly

favorable arrangements could, in the general interest, be made for those countries whose currencies are used as international media. The recent arrangements for the United Kingdom are an encouraging sign in this respect. We were also glad to note that there appears to be a trend of opinion among members in favor of special facilities for less developed and small-quota countries.

It would, of course, be undesirable that borrowing from the Fund should become so automatic that the organization would be deprived of its beneficial influence on the economic affairs of its members. Easy access to credit has its obvious dangers. Nevertheless, some increase in the amount that can be automatically drawn from the Fund is desirable.

Another desirable extension of the Fund's operations would be the acceptance from central banks of deposits of gold and convertible currencies, over and above quota requirements. Granted the usual immunities, this would prepare the way for a voluntary centralization in the Fund of gold holdings, which would enlarge the Fund's resources and enable it to carry out its functions more effectively.

The evolution of the Fund's activities will, of course, be gradual, but it is important that that evolution should be guided toward objectives clearly visualized in advance. In our opinion, the ultimate aims should be the creation of an international currency and the development of the Fund into a central bank for central banks. We believe that in this way the world's expanding needs for international reserves could most effectively be met.

Finally, I should like, on behalf of the Irish delegation, to express warm appreciation of the welcome and hospitality extended by the Austrian authorities.

Statement by the Governor for Tunisia

Hédi Nouira

We are chiefly concerned this year with the problem of international liquidity and the measures that the Monetary Fund might

take to remedy the difficulties which may arise in this respect. The Annual Report indicates the direction that the Board contemplates taking in solving the question: to make use of the borrowing possibilities provided by Article VII.

The solution obviously has the big advantage of requiring neither the amendment of the Articles of Agreement nor the setting up of a new institution which would be affiliated with the Fund. It will enable the Fund to cope immediately with any situation that may arise in which its assistance is called for.

Moreover, the device of stand-by credits provides evident flexibility in the system.

We are happy to note that the Fund's action will not be hindered in the near future by a lack of financial means; concern might have been caused in this respect by the recent drawings made by certain countries.

Certainly the solution proposed makes for greater effectiveness in the operation of the Fund's machinery for intervention by providing it with a stock of currencies which are not at the time under pressure. The problem of international liquidity will thus be satisfactorily solved.

The necessity under which some industrialized countries have found themselves in recent years of taking restrictive monetary measures in order to cope with balance of payments difficulties has inflicted very high income losses on the countries of the West and has not always given their businessmen an opportunity to use their initiative to bring production and trade to the levels that are actually possible in the course of a steady development.

Larger exchange reserves would have made it possible for these countries to pursue a more stable and sustained monetary policy; they would not have been forced to restrict their investment for purely monetary reasons, to close down the source providing the additional production which at medium term might have supplied surplus money; thus, it has been said that the fight to stem the current inflationary spiral was paving the way for the next, the same statement being also applicable to inflationary trends generally.

In the last analysis, the "payment effect" will endanger the regular development of international economic expansion and slow down the expansion of trade among the various countries; the extremely favorable results obtained by the former European Payments Union are eloquent evidence of this fact.

The underdeveloped countries have at least an indirect interest in the success of the industrialized countries in avoiding difficulties affecting their economic activity and in the regular and growing rhythm of their development.

That is why Tunisia approves all efforts to remedy the lack of international liquidity, so that the balance of payments of the better developed countries will not result in the near future or too frequently in the taking of measures that endanger business development and the growth of internal and international trade; we believe that the Fund's role is to intervene and work out the necessary mechanisms.

However, though we may be reassured regarding the Fund's possibilities for action, we still must not forget the necessity under which the creditor countries are to carry out some policy regarding their balance of payments excesses in a way that is, of course, compatible with the normal level of their exchange reserves.

The mere freeing of international liquidity by means of loans to the Fund which will enable it to help countries that are in difficulties with regard to their international settlements does not imply that the creditor countries must adopt or emphasize the policy to which I have just referred. One would suppose that, as the creditor countries lend money and thus improve international liquidity, everything has been done that can be done, especially since the symptoms of the trouble will have disappeared.

However, in most cases, this would be deceptive.

Moreover, the lending countries might on occasion ask that the Fund in making use of its loans in favor of one or another country obtain their agreement ahead of time; in such a case, it is the policy of the debtor countries that would be directly affected, without any concomitant and necessary scrutiny of the policy pursued by the creditor countries.

We must consider this policy not only from the monetary point of view, but also from the economic point of view and with the widest outlook, taking into account the problem of the prices of the primary products supplied by the underdeveloped countries. Last year a further worsening of these countries' balance of payments was recorded.

It is of the utmost importance that the balance of international settlements should not be systematically determined by economic measures taken mainly and perhaps exclusively by the countries either of the weakest or the most vulnerable economic structure.

The measures that they are led to take can only reduce the volume of international trade, and the balance thus obtained is not necessarily that which provides the best level.

That is why, in the last analysis, it is to the interest of the industrialized countries themselves to work toward a balanced higher level of trade with the underdeveloped countries, for in that manner they will find an outlet for their own production.

If, thanks to the device of Fund borrowings from creditor countries, we achieve our aim of freeing international liquidity, thus permitting the Fund to help the countries that are in balance of payments difficulties, it would be desirable also that the industrialized countries adapt their policies to achieve a better division of exchange reserves in adopting measures leading to a higher level of imports of goods and services from the underdeveloped countries.

The industrialized countries, in agreeing to the principle of stand-by credits, will make it possible to make good in the near future the lack of international liquidity of some countries. This position would be of more value if it was the prelude to the adoption by the creditor countries of a policy of spreading international liquidity through transactions in goods and services.

Statement by the Governor for Malaya

Tan Siew Sin

I should like, first of all, to congratulate Mr. Jacobsson and his staff on the Sixteenth Annual Report of the International Monetary Fund, which gives a clear and comprehensive review of international affairs in the monetary sphere during the Fund's last completed fiscal year. The great increase in the number of member countries which have been able to liberalize their trade and payments policies must be very gratifying to the Fund and its staff.

The Federation of Malaya welcomes the proposals for extending and increasing the effectiveness of the Fund's resources. There can be no doubt that the solid weight of support for stability in international exchanges that these proposals represent will remove a great deal of the currency speculation which has been such a disturbing factor in recent months. We also welcome the statement made by Mr. Jacobsson in his annual address that it is the intention of the Fund to increase the resources at its disposal by concluding borrowing arrangements with the main industrial countries. In this connection, we are happy to note that Mr. Jacobsson has agreed to accept an extension of his appointment and will thus be able to use his very considerable experience and skill in the successful implementation of these new proposals.

The growing sense of international responsibility and cooperation generated by the Fund, the Bank, and other international organizations has taken effective forms among the Fund's individual members. We have seen examples of this praiseworthy spirit manifested in the formation of the "Aid to India Club," the Indus Waters Settlement, the International Development Association, the Development Assistance Group, and, most recently, in the Basle agreement among European central bankers. Of particular interest to developing countries like Malaya is the recent announcement by the ten member countries of the Development Assistance Group that they should make common cause to

secure an expansion of the volume of resources to be made available to the less developed countries and to improve the effectiveness of these resources. It is indeed encouraging that these affluent industrialized countries realize that there can be no permanent peace and prosperity so long as large numbers of the world's population live in poverty while the remainder enjoy the full fruits of economic prosperity; for peace and prosperity are both indispensable and indivisible for the future of mankind as a whole.

However, while all these forms of international cooperation have done, and will undoubtedly continue to do, a great deal to channel increasing aid and investment into the developing areas of the world, the benefits of such assistance in the past have often been more than nullified by the low level of export earnings of the developing countries as a result of fluctuating prices for their raw material exports. The indications are that in recent years the terms of trade have moved persistently in favor of the more advanced industrialized countries so that, even with an increased volume of raw material exports, the less developed countries have found that their purchasing power in terms of imports has fallen.

The effects of such a deterioration in foreign earnings, especially at a time when the developing countries are embarking on plans for economic development and diversification, can, of course, be disastrous and, thankful though the developing countries are for financial assistance from the economically advanced countries, I think I can speak for all of them when I say that they would prefer to be able to depend to a far greater extent than has been possible in recent years on the results of their own efforts. In other words, they would prefer to be allowed their due deserts from honest trading rather than find themselves virtually in the position of supplicants. Stable and more equitable conditions for trade, not more aid, is all that they ask for. For example, in 1958, the underdeveloped countries sold their products for $25 billion, which incidentally was the same figure as that for 1950, but they had to pay 25 per cent more for the manufactured goods they imported.

We are exhorted, and rightly so, by the industrialized countries to lift ourselves up "by our boot straps," if I may be permitted to use a colloquial expression. If, however, we succeed in doing so by building up manufacturing industries, it is our hope that the products of such industries would be allowed to enter the main industrial countries in fair and open competition.

Two years ago, I was allowed the opportunity to draw attention to the role the Fund could play in examining ways and means of stabilizing world commodity prices. One of the major tasks of the Fund is to facilitate the expansion and balanced growth of international trade and thereby contribute toward exchange stability and balanced development of the productive resources of all members. The move to convertibility during the period under review by the major Western industrial democracies should no doubt have beneficial effects on world trade as a whole. However, it cannot be expected that the raw material exporting countries will benefit fully from these developments unless something is done to stabilize the prices of their export commodities. And this, in turn, will have its effects on the economies of advanced countries, for any fall in foreign exchange earnings resulting from declining raw material export prices must inevitably lead to a contraction in the demand for imports from the industrialized countries. It is, therefore, in the interests of both the economically advanced countries and the developing countries that the prices of commodities produced for international trade should be reasonably stable over as long a period as possible. This surely is a subject worthy of study by the Fund's staff and one which, in my humble opinion, cannot be shunned much longer if the long-term objectives of the Fund are to be fulfilled. You, Mr. Chairman, in your opening address, drew attention to this problem and pointed out that it affects a majority of the world's population.

In short, we in Malaya feel that the most effective single measure which could raise living standards throughout the underdeveloped countries, which are largely primary producers, is to ensure that the prices of their primary products are not only stable but fair in relation to those of manufactured goods. Such a

measure is also a matter of simple economic prudence and cannot by any means be regarded as charity. We are, of course, aware that such an undertaking would be a vast one, covering as it will necessarily do, numerous primary products, most of which would require different treatment. Enormous financial resources would also be required for this purpose. The difficulties are many and complex, but I venture to say that unless this basic anomaly is tackled at its roots, no amount of well-intentioned largesse and piecemeal palliatives will arrest the growing disparity between the terms of trade of the industrialized countries on the one hand and the underdeveloped countries on the other. We are also fully aware that an undertaking of this magnitude would require a global effort on a scale unheard of before, but we are also convinced that nothing less will suffice.

Unwillingness on the part of industrialized countries to tackle this problem with vigor and vision, or a continuation of the half-hearted attempts of the past, could drive the majority of the developing countries to turn to those siren voices which promise a quick and certain way to prosperity at the price of human freedom and those eternal values for which brave men have fought and suffered throughout the whole catalog of human misery. Let us remember that in this age of rising expectations, in this age of incredible communications, men are no longer content to be poor, especially as they see around them the fruits of rapid industrialization. They have seen how totalitarian methods have made it possible to telescope into the space of a few decades what it would normally take many generations and even centuries to accomplish, provided they are prepared to pay the price. In the struggle between those who believe that human and moral values transcend material ones, and those who believe the opposite, the underdeveloped countries with their vast human resources may well hold the balance of advantage, and I have no doubt that, given a free choice, most of us will decide that, in the ultimate of human endeavor, there is something more important than mere materialism. The highly industrialized countries of the West can exert a decisive influence in this choice if they are also prepared to help where help is most needed and most justified.

This problem of violently fluctuating commodity prices presents a challenge to us all. At the same time, it also presents an opportunity, which if grasped surely and effectively could open up a broad vista of prosperity on a scale and to a degree undreamt of before. Inaction or insufficient action could lead to an ever-widening gap between those who have and those who have not, not only in terms of prosperity but in terms of the fellow feeling that is so essential to the future peace and stability of the world. It is for us to choose.

Statement by the Governor for Yugoslavia

Janko Smole

I am happy to convey my appreciation to the Board of the Executive Directors of the Fund for the comprehensive Annual Report, and especially to Mr. Per Jacobsson for his excellent address.

Also, I am glad to use this opportunity to say a few words on some problems which are increasingly pressing and which have given rise to various discussions in connection with the policy of the Fund and its future activities. In particular, I welcome the initiative of the Fund to examine the various solutions of these issues.

The international monetary system may and should be considered from different angles. One of them is related to the position of the less developed countries under the conditions of the prevailing large differences in the level of development among the countries.

I have in mind primarily the problems resulting from the balance of payments difficulties of the less developed countries suffering from great fluctuations in prices of their main export products, and, in particular, of those countries involved in an accelerated development of their economies. It should be stressed, however, that the efforts made by the underdeveloped countries today to develop their economies will help to create a sound foundation

for the implementation of the objectives of the Fund, relating to the gradual dismantling of the existing exchange restrictions and to the further expansion of multilateral forms of payments. These efforts, however, designed to mobilize all internal potential sources, bring about enormous strains in the economies of these countries. They are reflected in exceptional balance of payments difficulties, which, as a rule, are not of a short-term character. Therefore, the period of dismantling the various forms of restrictions, still existing, will be inevitably longer, slower, and linked with many more difficulties than in the case of the industrially developed countries in the postwar period.

It is well known that foreign assistance, as complementary to the internal sources, is, first of all, a question of long-term finance, and, therefore, is beyond the scope of activities of the International Monetary Fund. Nevertheless, the difficulties experienced by the less developed countries in this process may be alleviated to a great extent, and the process itself accelerated by improving the existing facilities for access of the developing countries to the resources of the Fund. Therefore, it would be desirable to extend and reinforce the flexible policy, already initiated by the Fund, in relation to these countries. Such a policy of the Fund would not only serve the interests of these countries, but would represent a substantial contribution to a more rapid fulfillment of the objectives of the Fund in general. A greater degree of automatism in the utilization of the Fund's resources by the less developed countries than at present as soon as certain policy requirements have been fulfilled, a certain raising of the upper limit to the utilization of its resources by these countries, and specific facilities in respect of the terms and conditions for the use of these resources, may represent, in my opinion, practical ways and means of such a policy.

I am fully conscious of the difficulties relating to the availability of the additional sources of finance, as well as of the proper forms of their mobilization, but I feel convinced that the right solution will, nevertheless, be found.

Another problem which is at present of a particular interest to many member countries is the problem of regional economic

integration. There is no doubt that the economy of every country tends toward the closest possible international economic cooperation. But this cooperation should be universal in its character and should not be limited to specific regions only. The emergence of separate integrated regions recently is, to my mind, contrary to the principles of liberalization and multilateralism in trade and payments. Countries outside these regions are exposed to discriminatory treatment, creating special difficulties for their efforts to solve their balance of payments problems, and narrowing their possibilities for liberalizing their foreign trade to a fuller extent.

The protection of agriculture in the integrated regions, already existing or under formation—protection from which many countries exporting agricultural produce suffer even today—is gaining in force, resulting, in turn, in greater difficulties for the exporting countries.

In accordance with the level of economic development already achieved and the material conditions created, my country started implementing, at the beginning of this year, in close cooperation with the Fund, a broad foreign exchange reform by introducing a uniform rate of exchange and by liberalizing a considerable part of our imports. It is our firm policy to proceed further with the liberalization of imports in conformity with the growth of our economy, as well as with the removal of some trade restrictions still existing in other countries and affecting our exports.

In conclusion, I take great pleasure in expressing gratitude to the Austrian authorities for the generous hospitality extended to us all.

CONCLUDING REMARKS[1]

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

Per Jacobsson

I think I am right in saying that a larger number of Governors spoke on Wednesday during the Fund meeting than in any previous Annual Meeting. In the course of their speeches, many Governors described the situations in their own countries and the problems which they are facing. There were also many observations about the work done by the Fund, and suggestions for the future; and, in particular, many Governors referred to the question of the adequacy of the Fund's resources.

It is evident that much thought has been given to the preparation of the various statements which we have heard, and I should have liked to be able to comment in detail on them all. I am sure you will agree, however, that it would be impossible for me to do so today, but I can assure you that very careful attention will be given in the Fund to what has been said here at this meeting.

All I can do today is to refer more specifically to one or two of the more general points that have been discussed.

A number of Governors referred—as I had done in my opening remarks—to the difficulties of the raw material producing countries resulting from the weakness and fluctuations in the prices of their export products.

The Governor for Malaya requested that the Fund's staff should study this whole complex of questions, and I would like to assure

[1] Delivered at the Closing Joint Session, September 22, 1961.

him and the other speakers who referred to this matter that these questions have been considered, and will continue to be considered, most carefully in the Fund. Indeed, as you know, members of the staff took part in the discussions held by the group of experts appointed by the Secretary-General of the United Nations to study international compensation for fluctuations in commodity trade.

Many Governors also referred to the difficulties encountered by developing countries in their efforts to export to the industrialized countries. This is a matter which is causing concern in many quarters of the world, and I am certain that the representatives of the industrialized countries have carefully noted what has been said. Aid without the opportunity for trade will be of little long-term benefit to the developing countries, and will therefore not fulfill the objectives of those who grant the aid. While the benefits of a multilateral payments system are recognized and accepted, we must give due weight to the fact that trade liberalization has not progressed sufficiently, and certainly not in fields which are of importance for the achievement of a better balance between the richer and the poorer countries. There are still restrictions and discrimination in the field of trade and shipping, and the Fund will continue to be interested in these matters. As several Governors have stressed, one of the purposes of the Fund is to facilitate the expansion and balanced growth of international trade. The Fund will make every effort to pursue this objective within the scope of its functions. In this, and other matters, the Fund welcomes continued cooperation with other international and regional organizations.

From the discussions at this meeting, I think it is clear that there is complete agreement that monetary stability is the only safe foundation for sustained economic growth. That this has become so widely accepted is vital to the Fund in its work, for a stabilization program can never be truly effective unless all those involved in its implementation are convinced of its necessity.

The Governor who spoke first at our meeting on Wednesday—the Governor for Austria—laid great stress on the need for monetary discipline which had had such beneficial effects in his,

as well as in other, countries. Many other Governors emphasized the same theme—and I conclude that there is world-wide agreement on this. As the Governor for the Netherlands so impressively pointed out, the monetary authorities have to tread a narrow path, particularly between inflation and deflation. This was a useful reminder and I fully agree with him that our problems are primarily problems of monetary management, for whatever dangers may be inherent in certain of our institutional arrangements, I think good policies can overcome them, especially if international resources, when needed, are used to gain the time for the proper execution of a domestic program of action.

I think that the consensus at this meeting has been that the present monetary system should be maintained because it has served the world well during the years since the end of the Second World War. I agree with the Governor for France, however, who said, "While recognizing that the world cannot, in the present state of affairs, fail to apply the system of the gold exchange standard, we must remain conscious of the risks of this system." We believe that the system needs to be strengthened, mainly because the possibility of the transfer of funds from one country to another can cause difficulties against which a proper defense should be provided.

We have heard from the Governors of the two main reserve countries, the United Kingdom and the United States, that their Governments are determined to make all the efforts necessary to maintain a satisfactory balance of payments position and to preserve the value of their currencies. To enable the existing monetary system to work effectively, full confidence in the reserve currencies is indispensable, and we welcome these statements.

At the same time, an essential part in the present system is played by the International Monetary Fund, as a central agency lending strength to the currency structure. I think it has generally been agreed at this meeting that the Fund should be adequately equipped to help to deal with those problems that affect the stability of the system. And it is for this reason that we have been discussing the question of strengthening the Fund's resources

by borrowing currencies under Article VII of the Fund Agreement. Attention has been concentrated on making arrangements with the governments of the main industrial countries. This is, of course, a question of profound interest to all members of the Fund, for they all are vitally interested in measures designed to meet any major strains on the world's monetary system.

I am glad to be able to say that all the Governors who touched on this subject expressed a positive interest in having the Fund make suitable borrowing arrangements to meet this contingency, and it is particularly heartening to find a broad measure of agreement among the countries that would be the expected lenders under such borrowing arrangements. As a result of this week's meeting, I am confident that an arrangement can be worked out, large enough to be a powerful deterrent to any threat to the stability of our system. By its very existence, such an arrangement may indeed be expected to have a calming effect.

I mentioned in my opening statement that general safeguards for the lending members would have to be provided in any borrowing arrangement which would be established. Much attention has been devoted to this aspect in the discussion, and this is certainly a matter to which a great deal of attention must be given in the coming negotiations. Much work remains to be done, but my hope is that this work may be concluded by the Executive Directors before the end of this year. If that aim is achieved, there would be sufficient time for the member countries that will participate in this borrowing arrangement to seek early next year whatever authorizations are needed to give effect to the arrangement in their own countries.

In addition, several Governors, including those for Canada, France, Germany, the United Kingdom, and the United States, referred to the possibility of the Fund borrowing currencies from one or more of its member countries when, for other requirements of the Fund, the Fund's holdings of those currencies might need to be replenished. Of course, if the Fund needed to replenish its holdings in this way it would agree with the lender on all the terms on which this would be done.

It has been my experience that during all the work on the development of Fund policies and activities, which has now been going on for many months, we have achieved a much better understanding of the working of our monetary system and the role that the Fund may play in it. In the same way, we have found the discussions at the present meeting very useful and illuminating, and I am sure that the work which remains to be done will increase the understanding of our common problems.

I would like to take this opportunity to say a word about my friend, Robert Garner. I first met him at the time he was doing so much to help organize the World Bank, and of course I have seen more of him since I came to Washington, while he was setting up the International Finance Corporation (IFC) and guiding it through its first formative and difficult years. He is a man who knows his own mind and has always been refreshingly outspoken. While we shall no longer have the opportunity of hearing his address to the Governors of the IFC, I trust and hope that we shall continue to hear a great deal from him in other capacities.

You are all aware from the Annual Report of the Executive Directors and from what has been said at the meeting that this has been a year of unprecedented work and activity for the Fund. I am grateful indeed for the kind remarks you have addressed to me personally, but I would like to remind you that the increased pressure of work has devolved very largely on the Deputy Managing Director, Mr. Cochran, and on the whole staff of the Fund, and I think great thanks are due to Mr. Cochran and the staff for the work they have performed and the untiring devotion they have shown to the true interests of the Fund and the member countries. I would also like to thank the Executive Directors for all their work and help, not only during the formal discussions in the Board, but also in the day-to-day efforts which must precede any formal Board decisions.

Before leaving this city, I should also like to join those who have thanked our Austrian hosts for all the courtesies and hospitality they have extended to us during this strenuous week, and

we must also thank the International Atomic Energy Agency, as well as the Austrian Government, for the help they have given us in arranging this meeting.

I would like to end these remarks by commenting on what I believe to be one of the most favorable aspects of the world financial position today. I refer to the growing sense of mutual cooperation and community of interest in financial matters between the nations of the free world. The Fund has played, and will endeavor to play, a useful role in fostering this sense of interdependence among the nations, both through meetings such as this, and in the regular consultations with member countries and discussions in the Executive Board.

SELECTED ADDRESSES DELIVERED AT THE CLOSING JOINT SESSION[1]

STATEMENT BY THE GOVERNOR FOR LIBYA

Khalil Bennani

Please allow me to express our deep grief and sorrow at the sudden and tragic death of the famous Secretary-General of the United Nations, Mr. Dag Hammarskjold.

It is no mere conformity with convention that I express, on behalf of my delegation, our sincere gratitude to the Government and the people of the Republic of Austria for their warm welcome, friendliness, and gracious hospitality. My delegation is also very pleased to welcome the new member countries that have joined our institutions since our last Annual Meeting. We wish them the very best of luck in their national efforts to develop their economies, and we look forward to their increasing participation in promoting international economic cooperation.

During the past four days, we have listened with great interest to many stimulating and constructive statements made by the heads of our international institutions and fellow Governors. The essence of their statements, as well as the facts and figures contained in the last Annual Reports of our institutions, illustrate, once more, the sharp difference and contrast between the present economic problems of the industrialized nations, on the one hand, and the less developed countries, on the other. In this connection, it is sufficient to point out that, while the basic problem of the advanced economies is how to achieve greater economic integration and stability, the less developed countries are basically

[1] September 22, 1961.

engaged in transforming their largely unorganized and subsistence activities into modern and viable economies. These differences and contrasts confront our international institutions with the need for flexible policies to suit the different circumstances of various member countries.

For example, it is not sufficient, or perhaps even necessary, for the Fund to concentrate on achieving multilateral trade and monetary convertibility when it deals with the fundamental problems of the less developed countries in their efforts to create viable economies. Multilateral trade and full monetary convertibility may not always be the best means to achieve such an objective. This is not meant to minimize the importance of multilateral trade and monetary convertibility. Rather, it is meant to point out that the economies of the less developed countries will need a period of rapid growth and protection before they can become competitive with the export economies of the more advanced nations. The International Monetary Fund and the World Bank and its affiliates should use all possible means to make this period as short as possible. One of these means may be the promotion of regional economic integration, even if this may mean certain inefficiencies in the early stages of development.

Another issue of great significance in this connection is the persistent problem of harmonizing international trade with international aid. The honorable Governors for Australia, Ceylon, and many others made it abundantly clear that without such harmonization no amount of international aid can be effective in the long run. We believe that the initiative for finding an acceptable solution to this problem rests largely with the industrialized countries.

Although my country has not, so far, borrowed from the Bank nor drawn any currencies from the Fund, we have always maintained and tried to reinforce our participation in both of these institutions and their affiliates. We do this in the belief that it is the best way of contributing our modest share to world economic cooperation and understanding. We are fully aware that such collective efforts can only help us to help ourselves, and that the

final outcome of our national and regional economic and social development will depend upon our own efforts and sacrifices. We in Libya have been the recipient of various forms of technical assistance from the United Nations. In addition to that, and at our request, the World Bank made a survey of our resources and outlined some valuable recommendations designed to promote our economic development. We are now in the process of incorporating these recommendations into a national Five Year Plan that will be initiated shortly. For the formulation and supervision of our development programs we have established a National Development Council. To finance such development plans, the Council is authorized by law to receive 70 per cent of our forthcoming oil revenue. Since the middle of 1959, when oil was first discovered in commercial quantities, there has been a substantial increase in oil exploration and discovery. The total number of wells drilled increased from 105 at the end of May 1960 to 242 by the end of April 1961, while the number of productive wells increased from 29 to 87 during the same period. As of April 1961, the total surface area under concession was over one million square kilometers, or nearly two thirds of the total area of the country. This land is divided into 90 concessions held by 19 concession holders whose nationalities are as follows: 12 American, 1 British, 1 Anglo-Dutch, 2 German, 2 Italian, and 1 French. Last September, one major oil company initiated the construction of a 32-inch pipeline from the Zelten field to Mersa Brega, where facilities for loading crude oil and a small harbor for loading refined oil and unloading dry cargo are being rapidly constructed. It is expected that shipment of Libyan crude oil from the Zelten field will begin by January 1962. The future of the productive oil wells in Libya is more, we hope, than encouraging. We are, therefore, fully aware that, in addition to capital, economic development requires technical and administrative skills, and, for this reason, we are counting on the assistance of the Bank, the Fund, and the various agencies of the United Nations to assist us in the training of our own nationals, as well as the recruitment of advisory staff.

Mr. Chairman, allow me to thank you most sincerely for your very stimulating address at the opening of our session and for

the very able and cooperative way in which you have conducted our deliberations. I would like also to congratulate the Governors for Saudi Arabia and Chile on their election as Chairman and Vice Chairman for our next Annual Meeting and I am confident that they will serve us with ability and wisdom. Finally, we pray to God for guidance, as we seek to serve the common interest of our developing countries.

Statement by the Governor for Mexico

Antonio Ortiz Mena

It is a great honor for my country and a pleasant duty for me to have been designated to speak on behalf of the Latin American countries and express first of all our deep thanks to the Government and people of Austria, as well as to the authorities of the lovely city of Vienna, for their especially generous welcome, which has enabled us to enjoy the great beauty of this capital where the greatest manifestations of Western culture are brought together and exalted, giving it a splendor and brilliance that can hardly be equaled.

At the request of the Governor for Argentina, I transmit to you the cordial invitation of that country to have for the first time in the history of these organizations a South American city, Buenos Aires, as the headquarters for the next meeting to be held outside the United States.

Latin America joins its voice with that of the nations which have expressed their deep sorrow at the loss of one of the most vigorous fighters for world peace and the rights of weak countries, Mr. Dag Hammarskjold, Secretary-General of the United Nations, whose life will remain an admirable example for us all of valor and sacrifice.

I wish on behalf of the Latin American countries to say a cordial good-by to Mr. Robert L. Garner, who, first in the Bank and then in the International Finance Corporation, was responsible for an important part in the always difficult task of setting a

new organization off on the right road toward the fulfillment of its mission.

I thank the technical staff and the secretariat of the various international organizations for the magnificent work of administration and investigation carried out during the past year, one of the phases of which has culminated in the possibility now offered to us of a system of interpretation which has enabled me to speak in Spanish with the assurance that I will be heard and understood simultaneously by all my colleagues.

On beginning my statement on behalf of the Latin American countries, it is imperative to refer to the important decisions for the future of that area of the world adopted recently at the meeting in Punta del Este, Uruguay. We are sure that the aims set forth there will mean for these countries what other plans in their time meant for war-devastated Europe. Therefore, as spokesman of these countries, I urge all the international financial organizations, in the future course of their activities, to take part with the greatest interest and enthusiasm in achieving those lofty human and economic objectives on which the Charter of Punta del Este is based.

The results of this meeting inspire our hopes, since they are indeed fruitful from the point of view of the Latin American countries. We have been able to note here the expansion of the activities of the International Monetary Fund in such a way as to make it an institution whose increasing usefulness goes beyond what the founding members envisaged for it when it was established. The Fund has extended broad and timely aid to many of our countries at a time when the economic situation has meant the stagnation and, at times, the decline of their foreign exchange receipts, as is pointed out in the magnificent Report of the Executive Directors of that organization.

We also see that the institution is being transformed and is attacking problems with the required speed and expeditiousness; thus, we take pleasure in acknowledging publicly the fact, which we had been able to appreciate earlier, that the Monetary Fund, in pursuing financial stabilization in the countries, does so

fundamentally in order to establish firm foundations for their sound and orderly development, and that stability is not an end in itself, but an essential means for achieving economic progress, and, in particular, for ensuring that this progress extends effectively to the large masses of people and does not give rise to the creation of large fortunes in sectors favored by the rise of prices.

We note also that the Fund's activities will be more beneficial with frank acceptance of the principle that certain capital movements are problems of normal occurrence in the economic world and that the assistance provided by the Fund to cope with them is indispensable for the fulfillment of the original aims of Bretton Woods. In addition, we see this realistic and flexible attitude shown also in recognition of the need for using resources obtained by special borrowing arrangements in countries whose foreign exchange receipts and financial strength are high, in order to keep unimpaired the strength of the key currencies, which are frequently subjected to inordinate pressures.

The Latin American countries wish to mention especially the importance for the stability of their currencies of the Fund's principle of assistance in the case of inconvenient movements of capital. In fact, an outflow of capital, even though not of large magnitude, is important to any country in which it occurs, and for that reason it should by no means be considered that the Fund should intervene only when currencies in wide international use are affected.

It is singularly appropriate at this meeting, which is being held in industrial Europe, to emphasize to the directors of the economy and finances of the countries importing primary products that any credit mechanism is only a poor substitute for the volumes of foreign exchange the export countries fail to receive because of the high and sometimes unnecessary taxes and obstacles frequently imposed on these products. A very illustrative example is the case of coffee, in which high import and consumption taxes seriously affect the economies of 14 Latin American countries.

We should note that the picture of financial measures of international cooperation would be incomplete unless the utiliza-

tion of special credits to support foreign exchange receipts affected by large fluctuations in the prices of raw materials could be placed in an institutional framework. A fundamental part of this kind of credit should be adjustment of the terms of payment to recovery of normal foreign exchange receipts.

We request the most complete understanding and collaboration of the International Monetary Fund authorities in order that the group of experts established under the Punta del Este Charter may recommend the most suitable machinery for solving this problem. We also express here our confidence that the Fund will permit prompt access to its resources for countries in need of it by reason of the reduction of their tariffs for purposes of the Latin American economic integration programs.

With respect to the activities of the World Bank, which are always of great interest to us, we rejoice that the invitation to the industrialized countries has been repeated to increase their efforts directed at collaborating with the Bank by means of joint loans and with its affiliated institutions by means of large contributions of resources, in order to permit them to cope more effectively with the demands of a world in the vital process of development.

These questions are closely related to the profound ideas of President Black, soundly based on his experience, on the need for not placing less emphasis on the quality of the effort than on the magnitude of the aid. The European countries are and should still be the most important source of capital, equipment, technical knowledge, and example for the underdeveloped countries. On the other hand, it is well to remember that the Latin American countries and, indeed, many underdeveloped countries have achieved increasing expansions of their annual output in relation to the volume of their investments. These already high coefficients of economic productivity which, for that matter, may be exceeded, are adequate to attract large amounts of new capital, with the certainty that the effort will not be made in vain and that the use of the capital will be highly beneficial.

Most of the Latin American countries, for their part, already have public and private credit institutions and industrial organizations fully qualified to handle efficiently the long-term loans essential for their increasingly complicated and modern economic structure. Thus, we concur fully with the appeal made to the capital-exporting countries that they increase the volume and improve the terms of their credits both as a means of making the investment more effective and as a means of enabling the countries receiving funds to handle large foreign loans at terms which make payment possible. Although some countries have a concentration of short-term foreign credits, this is not due to the fact that they try to get credits of that kind, but that they are frequently the only credits available to them, in contrast to the basic terms they should obtain.

We wish to make special mention of the liberal credit policy adopted by the International Development Association, which is so important for some countries, of making 50-year credits with other favorable conditions, although all loans cannot and should not be granted on such terms. It is obvious, however, that the greatest obstacle the underdeveloped countries will face in the future is the lack of resources of this kind. Therefore it is time to make a study directed at permitting as soon as possible the endowment of our international financial organizations with adequate resources to enable them to measure up to the task with which they have been entrusted. It becomes clear, then, that all countries should take part in this Association and that the capital-exporting countries should make the largest possible contribution to increase its loanable resources. Only in this way will it be possible to achieve the objectives of economic development, the importance of which is clearly evident when one considers the observation of Under Secretary of State George W. Ball that "two billion human beings are no longer willing to accept the miserable living conditions patiently borne by their forefathers."

COMMITTEES' REPORTS

and

RESOLUTIONS OF THE BOARD OF GOVERNORS

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REPORTS OF THE PROCEDURES COMMITTEES[1]

Chairman . . . . Thailand

Vice-Chairman . . . . India

Reporting Member . . . . Argentina

Other Members: Austria, China, Denmark, Ethiopia, France, Federal Republic of Germany, Guatemala, Jordan, Luxembourg, Malaya, Morocco, Spain, Turkey, United Kingdom, United States, and Venezuela

Report I

September 17, 1961

Sir:

The Procedures Committees, at their joint meeting held on Saturday, September 16, 1961, considered the matters of business which had been proposed for the 1961 Annual Meetings of the Boards of Governors of the Bank, the Corporation, the Association, and the International Monetary Fund.

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[1] The Procedures Committees reported also on the items concerning the Agenda of the International Bank for Reconstruction and Development, the International Development Association, and the International Finance Corporation, respectively. These references have been omitted. The numbering of the Annexes to this Report has been adjusted to take account of this omission.

I have the honor to submit the following recommendations of the Committees:

1. *Schedule of Meetings*

The Committees recommend that the provisional schedule set forth in Joint Document No. 1 [Annex I] be adopted, and that the Secretaries, in consultation with the Chairman, be authorized to change it as necessary.

2. *Conduct of Meetings*

The Committees recommend that the provisions relating to the conduct of the Meetings, as contained in Joint Document No. 2 [Annex II], be approved.

3. *Agendas*

The Committees recommend that the agendas set forth in Bank Document No. 1, Fund Document No. 1 [Annex III], IFC Document No. 1, and IDA Document No. 1 be adopted by the respective Boards of Governors and that proposed additions to any agenda be submitted in writing through the Chairman to the Procedures Committees for their recommendations.

4. *Later Reports of the Committees*

The Committees also considered the other individual items of business on the proposed agendas of the Bank, Fund, IFC, and IDA, and will make recommendations as to their disposition in separate reports. The report concerning Bank and IDA matters will be presented at the meeting of the Bank and IDA Governors on Tuesday morning. The report on matters concerning the Fund will be presented at the meeting of the Fund Governors on Wednesday morning. The report on matters concerning the IFC will be presented to the IFC Governors on Thursday morning.

The Committees will report later on:

a. Place and Date of next Annual Meeting.
b. Election of Officers and Procedures Committees for 1961-62.

Approved:

/s/ SUNTHORN HONGLADAROM (Thailand) *Chairman*	/s/ C. BRIGNONE (Argentina) *Reporting Member*

The Report was adopted by the Boards of Governors of the Fund and the Bank in Joint Session on September 18, 1961.

Annex I to Report I

SCHEDULE OF MEETINGS

Monday,	September 18 10:00 A.M.	Joint Boards Address by the President of Austria Address by the Chairman Joint Procedures Report I Annual Address, Managing Director of Fund
Tuesday,	September 19 10:00 A.M.	Bank and IDA Boards Joint Procedures Report II Annual Address, President of Bank and IDA Annual Discussion
	3:00 P.M.	Bank and IDA Boards Annual Discussion (cont.)

Wednesday,	September 20 10:00 A.M.	Fund Board Joint Procedures Report III Annual Discussion
	3:00 P.M.	Fund Board Annual Discussion (cont.)
Thursday,	September 21 10:00 A.M.	IFC Board Joint Procedures Report IV Annual Address, President of IFC Annual Discussion
	4:30 P.M.	Procedures Committees
Friday,	September 22 10:00 A.M.	Joint Boards Joint Procedures Report V Comments by Heads of Organizations Conclusion

Annex II to Report I

PROVISIONS RELATING TO THE CONDUCT OF THE MEETINGS

Attendance

1. All Sessions of the Boards of Governors of the Bank, the Fund, the Corporation and the Association, including Committee meetings, shall be closed to the public.

2. Only Governors, their advisers, accredited observers, invited guests, accredited members of the press and other authorized persons may attend Sessions of the Boards of Governors.

3. Meetings of Procedures Committees shall be open only to Governors who are members of the Committees and their advisers.

4. Sessions of the Boards of Governors and Committee meetings shall be open to such members of the Joint Secretariat and the technical staffs as may be necessary.

Public Information

5. The Chairman of the Boards of Governors, the President of the Bank, the Managing Director of the Fund and the President of the Corporation are authorized to communicate to the press such information concerning the proceedings of the Annual Meetings as they deem suitable. Copies of such communications shall be available to any Governor on his request.

Records

6. The Secretaries are authorized to prepare verbatim transcripts of the proceedings of Sessions of the Boards of Governors and their Committees. The transcripts of Committee proceedings, and any summary records thereof, will be confidential and available only to the Chairman, the President of the Bank, the Managing Director of the Fund, the President of the Corporation and the Secretaries, unless otherwise decided.
7. Reports of Committees shall be signed by the Committee Chairman and the Reporting Member.

Annex III to Report I

AGENDA

1. Sixteenth Annual Report
2. Financial Statements and Audit Report
   (Appendix IX of Sixteenth Annual Report and Fund Documents Nos. 2 and 3)
3. Administrative Budget for Fiscal Year Ending April 30, 1962
   (Appendix VII of Sixteenth Annual Report and Fund Documents Nos. 3 and 4)

4. General Reserve
   (Fund Document No. 5)
5. Changes in Rules and Regulations
   (Fund Document No. 6)
6. Application for Membership—Liberia
   (Fund Document No. 7)
7. Application for Membership—Senegal
   (Fund Document No. 8)
8. Application for Membership—Sierra Leone
   (Fund Document No. 9)
9. Application for Membership—Togo
   (Fund Document No. 10)
10. Place and Date of Next Annual Meeting
11. Election of Officers and Procedures Committee for 1961-62

Report III[1]

September 17, 1961

Sir:

At the joint meeting of the Procedures Committees held on September 16, 1961, the matters of business on the agenda of the Board of Governors of the Fund were considered.

I have the honor to submit the following report and recommendations of the Bank-Fund Procedures Committee:

1. *Annual Report*

The Committee noted that provision has been made for the annual discussion of the business of the Fund at this Meeting.

[1] Report II dealt with the business of the Board of Governors of the Bank and the IDA. Report III and the Resolutions recommended therein were adopted by the Board of Governors of the Fund on September 20, 1961.

2. *Financial Statements, Report on Audit and Administrative Budget*

The Committee considered the Report on Audit for the Fiscal Year ended April 30, 1961, the Financial Statements contained therein (Fund Documents Nos. 2 and 3, and Appendix IX of the Annual Report), and the Administrative Budget for the Fiscal Year ending April 30, 1962 (Appendix VII of the Annual Report and Fund Documents Nos. 3 and 4).

The Committee recommends to the Board of Governors the adoption of the draft resolution set forth in Fund Document No. 3.[2]

3. *General Reserve*

The Committee also considered the recommendation of the Executive Directors with respect to the allocation to the General Reserve of the Fund's net income for the fiscal year ended April 30, 1961 [Annex I].

The Committee recommends that the Board of Governors adopt the draft resolution contained in Fund Document No. 5.[3]

4. *Rules and Regulations*

The Committee reviewed the amendment to Rules I-2 and I-4(f) of the Rules and Regulations as submitted by the Executive Directors [Annex II] and recommends adoption by the Board of Governors of the draft resolution set forth in Fund Document No. 6.[4]

5. *Applications for Membership*

a. *Liberia*

The Committee considered the recommendations of the Executive Directors concerning the application of the Government of

[2] Resolution No. 16-5; see page 195.
[3] Resolution No. 16-6; see page 195.
[4] Resolution No. 16-7; see page 196.

the Republic of Liberia for membership in the Fund [Annex III] and recommends the adoption by the Board of Governors of the draft resolution submitted in Fund Document No. 7.[5]

b. *Senegal*

The Committee then considered the recommendations of the Executive Directors with respect to the application of the Government of the Republic of Senegal for membership in the Fund [Annex IV] and recommends the adoption by the Board of Governors of the draft resolution submitted in Fund Document No. 8.[6]

c. *Sierra Leone*

The Committee also considered the recommendations of the Executive Directors regarding the application of the Government of Sierra Leone for membership in the Fund [Annex V] and recommends adoption by the Board of Governors of the draft resolution submitted in Fund Document No. 9.[7]

d. *Togo*

Finally the Committee considered the recommendations of the Executive Directors concerning the application of the Government of the Republic of Togo for membership in the Fund [Annex VI] and recommends the adoption by the Board of Governors of the draft resolution submitted in Fund Document No. 10.[8]

Approved:

/s/ SUNTHORN HONGLADAROM	/s/ C. BRIGNONE
(Thailand)	(Argentina)
Chairman	*Reporting Member*

[5] Resolution No. 16-8; see page 196.
[6] Resolution No. 16-9; see page 199.
[7] Resolution No. 16-10; see page 203.
[8] Resolution No. 16-11; see page 206.

Annex I to Report III

September 16, 1961

Dear Mr. Chairman:

For the fiscal year ended April 30, 1961, the Fund had net income of $7,194,493.38. Under the Articles of Agreement it must be determined annually what part of the Fund's income shall be placed to reserve and what part, if any, shall be distributed.

At the Fifteenth Annual Meeting, the Board of Governors approved the allocation to the General Reserve of the net income for the fiscal year ended April 30, 1960 (Resolution No. 15-7).

Pursuant to the decision taken by the Executive Board on April 14, 1958, the net income of the Fund subsequent to April 30, 1960 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, 1961 is $7,194,493.38.

The Executive Directors recommend that the Board of Governors adopt the attached draft resolution [9] approving this allocation to the General Reserve.

Yours very truly,
/s/
PER JACOBSSON
Managing Director
and
Chairman of the Executive Board

Chairman of the Board of Governors
Sixteenth Annual Meeting
International Monetary Fund

[9] Resolution No. 16-6; see page 195.

Annex II to Report III

September 16, 1961

Dear Mr. Chairman:

In accordance with Section 16 of the By-Laws, the attached amendments to the Rules and Regulations are submitted for review by the Board of Governors.

On April 17, 1961, Rules I-2 and I-4(f) were amended to extend until April 30, 1962 the then prevailing service charge on transactions and charges on the Fund's holdings of member currencies in excess of quotas.

These rules as last amended are set forth in Attachment 1. A proposed resolution for consideration by the Board of Governors is attached.[10]

The Executive Directors have made no other changes in the Rules and Regulations since the last Annual Meeting.

Yours very truly,
/s/
PER JACOBSSON
Managing Director
and
Chairman of the Executive Board

Chairman of the Board of Governors
Sixteenth Annual Meeting
International Monetary Fund

[10] Resolution No. 16-7; see page 196.

Attachment 1. Amendments to the Rules and Regulations Since the Fifteenth Annual Meeting

Rule I-2. Text as amended on April 17, 1961 (the part affected by the amendment is shown in brackets):

> The service charge payable by a member buying the currency of another member in exchange for its own currency shall be paid at the time the transaction is consummated. The service charge payable for such transactions taking place from December 1, 1951 through [April 30, 1961] April 30, 1962 shall be ½ of 1 per cent.

Text adopted September 25, 1946, amended November 19, 1951, November 14, 1952, June 26, 1953, October 14, 1953, December 23, 1953, December 15, 1954, December 27, 1955, May 23, 1956, December 21, 1956, December 9, 1957, December 12, 1958, March 20, 1959, April 20, 1959, April 19, 1960, and April 17, 1961.

Rule I-4(f). Text as amended on April 17, 1961 (the part affected by the amendment is shown in brackets):

> With respect to each segment of the holdings of a member's currency to the extent that it represents the acquisition of that currency by the Fund from January 1, 1954 through [April 30, 1961] April 30, 1962:
>
> (i) The charge to be levied on each segment to the extent that it is within the first bracket of 50 per cent in excess of the quota shall be nil for the first three months, 2 per cent per annum for the next fifteen months, and an additional ½ per cent per annum for each subsequent six months.
>
> (ii) The charge to be levied on each segment to the extent that it is within the second bracket of more than 50 per cent and not more than 75 per cent in excess of the quota shall be nil for the first three

months, 2 per cent per annum for the next nine months, and an additional ½ per cent per annum for each subsequent six months.

(iii) The charge to be levied on each segment to the extent that it is within the third bracket of more than 75 per cent and not more than 100 per cent in excess of the quota shall be nil for the first three months, 2 per cent per annum for the next three months, and an additional ½ per cent per annum for each subsequent six months.

Text adopted December 23, 1953, amended December 15, 1954, December 27, 1955, May 23, 1956, December 21, 1956, December 9, 1957, December 12, 1958, March 20, 1959, April 20, 1959, April 19, 1960, and April 17, 1961.

Annex III to Report III

September 16, 1961

Dear Mr. Chairman:

I am transmitting herewith on behalf of the Executive Directors a draft resolution,[11] which is recommended for adoption by the Board of Governors, on the admission of Liberia to membership in the Fund.

Yours very truly,
/s/
PER JACOBSSON
Managing Director
and
Chairman of the Executive Board

Chairman of the Board of Governors
Sixteenth Annual Meeting
International Monetary Fund

[11] Resolution No. 16-8; see page 196.

Annex IV to Report III

September 16, 1961

Dear Mr. Chairman:

I am transmitting herewith on behalf of the Executive Directors a draft resolution,[12] which is recommended for adoption by the Board of Governors, on the admission of the Republic of Senegal to membership in the Fund.

Yours very truly,
/s/
PER JACOBSSON
Managing Director
and
Chairman of the Executive Board

Chairman of the Board of Governors
Sixteenth Annual Meeting
International Monetary Fund

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[12] Resolution No. 16-9; see page 199.

Annex V to Report III

September 16, 1961

Dear Mr. Chairman:

I am transmitting herewith on behalf of the Executive Directors a draft resolution,[13] which is recommended for adoption by the Board of Governors, on the admission of Sierra Leone to membership in the Fund.

Yours very truly,
/s/
PER JACOBSSON
Managing Director
and
Chairman of the Executive Board

Chairman of the Board of Governors
Sixteenth Annual Meeting
International Monetary Fund

[13] Resolution No. 16-10; see page 203.

Annex VI to Report III

September 16, 1961

Dear Mr. Chairman:

I am transmitting herewith on behalf of the Executive Directors a draft resolution,[14] which is recommended for adoption by the Board of Governors, on the admission of the Republic of Togo to membership in the Fund.

Yours very truly,
/s/
PER JACOBSSON
Managing Director
and
Chairman of the Executive Board

Chairman of the Board of Governors
Sixteenth Annual Meeting
International Monetary Fund

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[14] Resolution No. 16-11; see page 206.

Report V[1]

September 21, 1961

Sir:

I have the honor to submit the following report of the second meeting of the Procedures Committees held on September 21.

1. *Place and Date of the Next Annual Meetings*

The Committees recommend that the 1962 Annual Meetings be convened in Washington, D.C., in September 1962. The Committees further suggest that, for planning purposes, Washington, D.C., be considered the place of the 1963 Annual Meetings.

2. *Officers and Procedures Committees*

The Committees recommend that the Governor for Saudi Arabia be elected Chairman and that the Governor for Chile be elected Vice-Chairman of the Boards of Governors to hold office until the close of the next Annual Meetings, provided that, until Saudi Arabia shall have become a member of the Corporation, the Vice-Chairman shall act as Chairman of the Board of the Corporation.

It is further recommended that a Procedures Committee of the Bank and Fund be established to be available after the termination of this Meeting, and until the close of the next Annual Meetings, for consultation at the discretion of the Chairman, normally by correspondence, and also, if occasion requires, by convening when necessary. Such Procedures Committee shall be comprised of the Governors for the following members: Burma, Canada, Chile, China, Costa Rica, Ecuador, Finland, France, Germany, India, Italy, Japan, Netherlands, Nigeria, Saudi Arabia, Tunisia, United Arab Republic, United Kingdom, and United

[1] Report IV dealt with the business of the Board of Governors of the IFC. Report V was adopted by the Boards of Governors of the Fund and Bank in Joint Session on September 22, 1961. Items in the Report referring exclusively to the Bank, IDA, and IFC have been omitted.

States. The Committees recommend that the Chairman and the Vice-Chairman of this Committee shall be the Governors for Saudi Arabia and Chile, respectively, and that the Governor for Italy shall serve as Reporting Member.

The Committees recommend that meetings of the Procedures Committees of the Bank, the Fund, the Corporation, and the Association on matters pertaining to annual meetings of the Boards of Governors be held jointly.

Approved:

/s/ SUNTHORN HONGLADAROM (Thailand) *Chairman*	/s/ C. BRIGNONE (Argentina) *Reporting Member*

RESOLUTIONS

Resolution No. 16-1

Amendment to Section 14(c) of the By-Laws

The Executive Board resolved on November 18, 1960 that action on the amendment 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 November 18, 1960 for a vote without meeting:

RESOLVED:

That effective December 1, 1960, the figure "$30,000" in Section 14(c) of the By-Laws of the Fund shall be changed to "$40,000".

The Board of Governors adopted the foregoing Resolution, effective December 14, 1960.

Resolution No. 16-2

Membership for the Republic of Cyprus

On August 16, 1960, the Government of Cyprus applied for membership in the Fund. The Executive Board resolved on May 12, 1961 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 May 17, 1961 for a vote without meeting:

WHEREAS, the Government of the Republic of Cyprus on August 16, 1960, 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 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 Cyprus 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 Cyprus shall be admitted to membership in the Fund shall be as follows:

1. *Definitions:* As used in this Resolution:
   - (a) The term "Fund" means 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 Cyprus shall be $11,250,000.
3. *Subscription:* The subscription of Cyprus shall be equal to its quota, and not less than $1,952,500 of the subscription shall be paid in gold and the balance in the currency of Cyprus.
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 Cyprus. In case Cyprus 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 Cyprus has been agreed in accordance with paragraph 5 below.

5. *Determination of Par Value:* Within 30 days after the Fund so requests, Cyprus 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, Cyprus 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 Cyprus 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, Cyprus 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:* Cyprus may not engage in exchange transactions with the Fund (a) before the thirtieth day after the par value of its currency has been agreed in accordance with paragraph 5 above and (b) before its subscription has been fully paid.

7. *Representation and Information:* Before accepting membership in the Fund, Cyprus 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 Cyprus 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 Cyprus has complied with the conditions set forth in paragraph 7 of this Resolution, Cyprus shall become a

member of the Fund as of the date when Cyprus shall have complied with the following requirements:

(a) Cyprus 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) Cyprus 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 for Acceptance of Membership:* Cyprus may accept membership in the Fund pursuant to this Resolution on or before December 15, 1961; 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 June 16, 1961.

Resolution No. 16-3

Membership for New Zealand

On April 17, 1961, the Government of New Zealand applied for membership in the Fund. The Executive Board resolved on June 16, 1961 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 19, 1961 for a vote without meeting:

WHEREAS, the Government of New Zealand on April 17, 1961, 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 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 New Zealand 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 New Zealand shall be admitted to membership in the Fund shall be as follows:

1. *Definitions:* As used in this Resolution:
   (a) The term "Fund" means 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 New Zealand shall be $125 million.
3. *Subscription:* The subscription of New Zealand shall be equal to its quota, and not less than $18 million of the subscription shall be paid in gold and the balance in the currency of New Zealand.
4. *Payment and 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 New Zealand. In case New Zealand 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 New Zealand has been agreed in accordance with paragraph 5 below.

5. *Determination of Par Value:* Within 30 days after the Fund so requests, New Zealand 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, New Zealand 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 New Zealand 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, New Zealand 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:* New Zealand may not engage in exchange transactions with the Fund (a) before the thirtieth day after the par value of its currency has been agreed in accordance with paragraph 5 above and (b) before its subscription has been fully paid.

7. *Representation and Information:* Before accepting membership in the Fund, New Zealand 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 New Zealand 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 New Zealand has complied with the conditions set forth in paragraph 7 of this Resolution, New Zealand shall become a member of the Fund as of the date when New Zealand shall have complied with the following requirements:

   (a) New Zealand 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) New Zealand 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 for Acceptance of Membership:* New Zealand 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 19, 1961.

The Articles of Agreement were signed by His Excellency G. R. Laking, Ambassador of New Zealand to the United States, on behalf of the Government of New Zealand, on August 31, 1961.

Resolution No. 16-4

Amendment to Section 14(f) of the By-Laws

The Executive Board resolved on July 14, 1961 that action on the amendment 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 July 18, 1961 for a vote without meeting:

RESOLVED:

That the second paragraph of Section 14(f) of the By-Laws be amended to read as follows:

In addition, any Executive Director or Alternate shall in the third year of continuous full-time service in either capacity and in every second year of such service thereafter be entitled to reimbursement for the cost of transportation expenses for his family in traveling once to and from the country of which he is a national. For home leave travel more frequent than every third year, reimbursement shall be made on the basis of cabin- or economy-class accommodations.

The Board of Governors adopted the foregoing Resolution, effective August 18, 1961.

Resolution No. 16-5[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, 1961, the Financial Statements contained therein, and the Administrative Budget for the Fiscal Year ending April 30, 1962, as fulfilling the requirements of Article XII, Section 7, of the Articles of Agreement and Section 20 of the By-Laws.

Resolution No. 16-6[1]

General Reserve

RESOLVED:

The Board of Governors approves the allocation to the General Reserve of $7,194,493.38, the net income for the fiscal year ended April 30, 1961.

[1] Adopted by the Board of Governors on September 20, 1961.

Resolution No. 16-7[2]

Amendments to Rules and Regulations

RESOLVED:

That the Board of Governors of the Fund hereby notifies the Executive Directors that it has reviewed the amendments to Rules I-2 and I-4(f) of the Rules and Regulations adopted by the Executive Board since the Fifteenth Annual Meeting and has no changes to suggest.

Resolution No. 16-8[2]

Membership for Liberia

WHEREAS, the Government of Liberia on February 23, 1961, 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 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 Liberia 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 Liberia shall be admitted to membership in the Fund shall be as follows:

1. *Definitions:* As used in this Resolution:

   (a) The term "Fund" means International Monetary Fund.

[2] Adopted by the Board of Governors on September 20, 1961.

(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 Liberia shall be $11.25 million.

3. *Subscription:* The subscription of Liberia shall be equal to its quota. Liberia shall pay in gold, as a minimum, the smaller of (i) 25 per cent of its quota; or (ii) 10 per cent of its official holdings of gold and convertible currencies as of May 1, 1961. The balance of the subscription shall be paid in the currency of Liberia.

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 Liberia. In case Liberia 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 Liberia has been agreed in accordance with paragraph 5 below.

5. *Determination of Par Value:* Within 30 days after the Fund so requests, Liberia 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, Liberia 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 Liberia 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, Liberia 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:* Liberia may not engage in exchange transactions with the Fund (a) before the thirtieth day after the par value of its currency has been agreed in accordance with paragraph 5 above and (b) before its subscription has been fully paid.

7. *Representation and Information:* Before accepting membership in the Fund, Liberia 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 Liberia 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 Liberia has complied with the conditions set forth in paragraph 7 of this Resolution, Liberia shall become a member of the Fund as of the date when Liberia shall have complied with the following requirements:

   (a) Liberia 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) Liberia 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 for Acceptance of Membership:* Liberia 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. 16-9[3]

Membership for the Republic of Senegal

WHEREAS, the Government of the Republic of Senegal on December 16, 1960, 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 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 Senegal 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 Senegal shall be admitted to membership in the Fund shall be as follows:

1. *Definitions:* As used in this Resolution:
   - (a) The term "Fund" means 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:*
   - (a) The maximum quota, upon payment in full of the gold subscription pursuant to paragraph 4 below, shall be $25 million.

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[3] Adopted by the Board of Governors on September 20, 1961.

(b) The initial quota shall be $7.5 million.

(c) Thereafter the quota shall be:

(i) $11,875,000 one year after the initial payment of gold has been made pursuant to paragraph 4(a) below;

(ii) $16,250,000 two years after such date;

(iii) $20,625,000 three years after such date;

(iv) $25 million four years after such date.

The quotas mentioned in this paragraph 2(c) shall be effective on the dates the payments are made in gold as prescribed in paragraph 4(a)(ii) below.

3. *Subscription:* The subscription of Senegal shall be equal to its quota. The portions of the subscription which shall be paid respectively in gold and in the currency of Senegal shall be those set forth in paragraph 4 below.

4. *Payment of Subscription:*

(a) *Gold*

(i) The amount of $750,000 in gold shall be paid to the Fund not later than the day the Articles of Agreement are signed on behalf of Senegal. In case Senegal does not acquire membership in the Fund the gold so paid shall be returned to it by the Fund.

(ii) Annual gold payments of $437,500 shall be made on each of the dates prescribed in paragraph 2(c).

(b) *Currency of Senegal*

(i) Before the thirtieth day after the initial par value of the currency of Senegal has been agreed in accordance with paragraph 6 below, the remaining portion of the quota effective at that date shall be paid in the currency of Senegal.

(ii) After the initial par value of the currency of Senegal has been agreed, as each quota takes effect pursuant to paragraph 2(c) above, the portion of the subscription which is not paid in gold shall be paid in the currency of Senegal.

5. *Anticipation of Gold Payments and Quota Adjustments:* Notwithstanding any other provision in this Resolution, Senegal may elect (a) at any time to pay in gold the unpaid balance of the total gold subscription of $2.5 million, at which time the quota shall be $25 million, or (b) on any date specified in paragraph 2(c) above to anticipate one or more payments of gold prescribed in paragraph 4(a)(ii) above, upon which payment the corresponding quota prescribed in paragraph 2(c) above shall become effective.

6. *Determination of Par Value:* Within 30 days after the Fund so requests, Senegal 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, Senegal 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 Senegal 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, Senegal shall not change its exchange rates prevailing at the time of accepting membership without agreement with the Fund after prior consultation.

7. *Exchange Transactions with the Fund:* Senegal may not engage in exchange transactions with the Fund (a) before the thirtieth day after the par value of its currency has been agreed in accordance with paragraph 6 above, and (b) its subscription in respect of the quota in effect at that time has been paid.

8. *Representation and Information:* Before accepting membership in the Fund, Senegal 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 9(a) and (b) of this Resolution, and Senegal shall furnish to the Fund such information in respect of such action as the Fund may request.

9. *Acceptance of Membership:* After the Fund shall have informed the Government of the United States of America that Senegal has complied with the conditions set forth in paragraph 8 of this Resolution, Senegal shall become a member of the Fund as of the date when Senegal shall have complied with the following requirements:

   (a) Senegal 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) Senegal shall sign the original copy of the Articles held in the Archives of the Government of the United States of America.

10. *Limitation on Period of Acceptance of Membership:* Senegal 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. 16-10[4]

Membership for Sierra Leone

WHEREAS, the Government of Sierra Leone on March 7, 1961, 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 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 Sierra Leone 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 Sierra Leone shall be admitted to membership in the Fund shall be as follows:

1. *Definitions:* As used in this Resolution:
   (a) The term "Fund" means 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 Sierra Leone shall be $11.25 million.
3. *Subscription:* The subscription of Sierra Leone shall be equal to its quota. Sierra Leone shall pay in gold, as a minimum, the lesser of (1) 25 per cent of its quota, or (2)(a) $1,233,100 plus 10 per cent of its net official holdings of gold and convertible currencies as at the date that Sierra Leone makes the representation to the Fund that it has taken all action necessary to adhere to the Articles of

[4] Adopted by the Board of Governors on September 20, 1961.

Agreement, or (b) if its allocated share of the assets of the West African Currency Board has been transferred to Sierra Leone prior to the date mentioned in (2)(a) above, 10 per cent of Sierra Leone's net official holdings of gold and convertible currencies on such date. With the representation provided for in (2)(a) above, Sierra Leone shall furnish to the Fund the data necessary to determine its net official holdings of gold and convertible currencies. The balance of the subscription shall be paid in the currency of Sierra Leone.

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 Sierra Leone. In case Sierra Leone 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 Sierra Leone has been agreed in accordance with paragraph 5 below.

5. *Determination of Par Value:* Within 30 days after the Fund so requests, Sierra Leone 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, Sierra Leone 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 Sierra Leone 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, Sierra Leone 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:* Sierra Leone may not engage in exchange transactions with the Fund (a) before the thirtieth day after the par value of its currency

has been agreed in accordance with paragraph 5 above and (b) before its subscription has been fully paid.

7. *Representation and Information:* Before accepting membership in the Fund, Sierra Leone 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 Sierra Leone 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 Sierra Leone has complied with the conditions set forth in paragraph 7 of this Resolution, Sierra Leone shall become a member of the Fund as of the date when Sierra Leone shall have complied with the following requirements:

   (a) Sierra Leone 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) Sierra Leone 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:* Sierra Leone 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. 16-11[5]

Membership for the Republic of Togo

WHEREAS, the Government of the Republic of Togo on July 8, 1960, 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 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 Togo 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 Togo shall be admitted to membership in the Fund shall be as follows:

1. *Definitions:* As used in this Resolution:
   (a) The term "Fund" means 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 Togo shall be $11.25 million.
3. *Subscription:* The subscription of Togo shall be equal to its quota and not less than $1,125,000 of the subscription shall be paid in gold and the balance in the currency of Togo.
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 Togo. In case Togo does not acquire membership in the Fund the gold so paid shall

[5] Adopted by the Board of Governors on September 20, 1961.

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 Togo has been agreed in accordance with paragraph 5 below.

5. *Determination of Par Value:* Within 30 days after the Fund so requests, Togo 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, Togo 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 Togo 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, Togo 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:* Togo may not engage in exchange transactions with the Fund (a) before the thirtieth day after the par value of its currency has been agreed in accordance with paragraph 5 above and (b) before its subscription has been fully paid.

7. *Representation and Information:* Before accepting membership in the Fund, Togo 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 Togo 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 Togo has complied with the conditions set forth in paragraph 7 of this Resolution, Togo shall become a member

of the Fund as of the date when Togo shall have complied with the following requirements:

(a) Togo 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) Togo 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:* Togo 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.

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