SUMMARY PROCEEDINGS
ANNUAL MEETING
1956

INTERNATIONAL
MONETARY FUND

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INTERNATIONAL MONETARY FUND

SUMMARY PROCEEDINGS

OF THE ELEVENTH ANNUAL MEETING

OF THE BOARD OF GOVERNORS

SEPTEMBER 1956

WASHINGTON, D. C.

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INTRODUCTORY NOTE

The Eleventh Annual Meeting of the Board of Governors of the International Monetary Fund was held jointly with the Board of Governors of the International Bank for Reconstruction and Development in Washington, D. C., from September 24 through September 28, 1956, under the Chairmanship of the Honorable Antonio Carrillo Flores, Governor for Mexico.

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

ROMAN L. HORNE
Secretary
International Monetary Fund

Washington, D. C.
December 10, 1956

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ADDRESS BY THE PRESIDENT OF THE UNITED STATES OF AMERICA[1]

Dwight D. Eisenhower

It is a very definite honor for this nation's capital to be the host to such a distinguished body. I assure you that we are complimented by your presence.

I suppose seated here before me is the greatest concentration of financial genius that this world could produce. That being so, you can be sure of one thing: I am not going to talk about international finances.

I think I would prefer to talk for a minute about some of the meanings, some of the results, of the kind of cooperation that you people are here to undertake. International cooperation is the key to peace. It must come about, and it must progress from year to year, or the world must be the poorer by reason of that failure.

We have the United Nations in order to spread understanding, one to the other, a place where we may debate our differences rather than resort to the ancient arbiter of force—an organization to promote and sustain peace. We have such defensive organizations as the North Atlantic Treaty Organization, the Southeast Asia Treaty Organization and the Organization of American States, all having as one of their main purposes the security of all of the member states against unwarranted attack.

Now, in this International Bank and International Monetary Fund, we have the possibility of extending this cooperative feeling into our business life, the international business life.

As mutual understanding and good will, and above all confidence in each other, is the basis of any successful business within a nation, so it is in the international world. As confidence grows,

[1] Delivered at the Closing Joint Session, Session No. 6, September 28, 1956.

in turn based on mutual understanding, in turn based on meetings such as these, we are bound to have a general rise in the living standards of the world brought about by the fact that business thrives in the spirit of confidence thus engendered.

So, as you pool long-term capital and provide technical advice and help for all of the organisms that are struggling to produce wealth so that all the people of the world may prosper, you do it together and, therefore, add to the strength of each so that the whole total becomes one not only formidable but truly overwhelming in its influence.

I have only one other word to say, and it has to do with an experience of mine in wartime when I was working with groups that had among themselves to develop real cooperation or there could be no success. There are men in this audience who were my associates in that work and we early found one thing: without the heart, without the enthusiasm for the cause in which you were working, no cooperation was possible. With that enthusiasm subordinating all else to the advancement of the cause, cooperation was easy.

Now, it seems to me you people have shown your enthusiasm for doing your part in developing this growing and expanding world economy by coming here, by coming from so many different nations, giving your time and your efforts to meet with others in order that the world may prosper. Because you do show that enthusiasm, that kind of leadership, I venture to offer to each of you my complete confidence that nothing you could be now doing, in your own country or elsewhere, is more worthwhile than what you are doing here in this great Meeting you have been holding.

Again I say, Washington, our nation's capital, this entire Government, the American people, are proud to have had you. We hope only that these Meetings may be frequent and every one of them more fruitful than its predecessor.

OPENING ADDRESS BY THE CHAIRMAN OF THE BOARDS OF GOVERNORS[1]

Antonio Carrillo Flores

May I say at the outset that it is a great pleasure to welcome you here today. I wish, first of all, to express my country's appreciation for the honor bestowed upon Mexico when it was elected to preside this year over the Boards of Governors of the International Monetary Fund and the International Bank for Reconstruction and Development. I welcome the members of both Boards of Governors, their Alternates and advisors and also our many distinguished observers and guests. On behalf of my fellow Governors, I would like to add a special word of greeting to the representatives of our new members, Argentina and Viet-Nam. To our host Government, the United States of America, I wish to express our warm thanks for its customary generous hospitality. I am sure that all of us look forward to exchanging views and ideas which will prove useful in the discharge of our responsibilities, each in his own country. We shall renew old acquaintances and form new ones, thus taking this opportunity to discuss in the friendly atmosphere of this great nation's capital some of the numerous problems of international financial cooperation.

We are concerned primarily with the work of the International Monetary Fund and the International Bank for Reconstruction and Development. It is our purpose to review their recent achievements and progress and to exchange views in the light of the current situation throughout the world. We have entrusted broad responsibilities to these two institutions created under the inspiration of a noble purpose: to increase effectively such international economic cooperation as will contribute to make fruitful, within a framework of justice, order, and friendship, the efforts

[1] Delivered at the Opening Joint Session, Session No. 1, September 24, 1956.

which each of our countries is making to increase its general standard of living.

The Annual Meetings of the Fund and the Bank make a twofold contribution toward that high purpose. First, they enable our Executive Boards and managements to gain a better understanding of the thinking of member governments. And secondly, we Governors are able to renew our personal contacts and draw fresh impressions from one another and from our Fund and Bank managements on policies designed to advance the objectives of our two institutions.

More than a decade has passed since the Fund and the Bank were established–sufficient time to test the strength and vitality of these two leading international organizations. The principles embodied in the two founding Agreements remain valid and workable, despite the difficulties which had to be overcome. At the same time, experience has shown that these institutions, born out of agreements reached by countries with different backgrounds, can put these principles fully into practice only when they are adapted to the various political, social, and economic conditions prevailing in different areas of the world. The Fund and the Bank have learned to take their members as they are. As a result, we have observed an increasing capacity on the part of the Fund and the Bank to conduct their business with flexibility and realism, bringing in turn greater and greater activity and effectiveness.

Recent years have shown a marked improvement in the world economy. Almost everywhere, production and productivity are higher, while international trade and investment flow with more freedom and in greater volume. The world has recovered substantially from its heavy dependence upon emergency programs of foreign aid. Consequently, standards of living are rising, though we must admit not as rapidly nor as universally as we would like. A few countries have progressed rapidly, but the great majority have advanced slowly. The headway made by the more developed countries over the less developed countries has

become more pronounced. In Mexico the percentage gain has been satisfactory, owing mainly to the prevailing atmosphere of fruitful work brought about by the political, economic, and social reform which we call the Mexican Revolution. We started, however, from a low level, and the majority of our people do not yet enjoy an income sufficient to afford them the necessities and amenities of life which present-day civilization should give to mankind.

In the developed economies of the United States, Western Europe, and the British Commonwealth, 500 million people produce each year goods and services valued at more than $700 billion while in a group of less developed economies, 1,200 million people produce only $150 billion. In other words, the per capita production in the industrialized nations is more than 10 times greater than in the nonindustrialized nations.

In 1955, world trade reached $82 billion, 150 per cent of the highest prewar level. This figure is gratifying. Yet, it is discouraging that purchases of primary products by industrialized countries from supplying nations increased by only one third of the gain in trade between industrialized countries. This situation has deep significance if we consider the point brought out in the Fund's Report that any decrease in the rate of world-wide growth will reduce prices and markets for primary goods. Hence, we should not take for granted that, because there is a high level of world production and employment, all countries will share equally in the prosperity. Fundamentally, it is essential to attain a fairer distribution of the benefits of trade among producing countries. Mexico believes that, for the world as a whole, mere expansion cannot, and should not, be the goal; we must all strive in both the domestic and international fields so that the primary producing countries may share more in the world's economic growth.

Many countries continue to be vulnerable to the evil effects of price fluctuations in their main exports. Countries that pro-

duce primary products are necessarily concerned at the accumulation of surpluses in various parts of the world. Since world demand for primary goods is fairly rigid, the more developed countries would make a great contribution to world-wide prosperity and well-being if they would dispose of their surpluses of such products in a manner which would not impair the less developed countries' access to world markets. After all, the less developed countries have, with great effort, been increasing their exportable output. In the last analysis, the highly industrialized countries would profit, because the less developed countries spend their earnings from exports of primary goods on the purchase of capital and consumer goods, the production of which requires highly skilled and highly paid labor.

Many of both the industrial and nonindustrial countries are entering a new era of monetary stability. However, inflationary pressures continue and are a constant source of worry. We must emphasize the continued need for following sound monetary and fiscal policies.

Much has been accomplished with the aid of the Fund in improving the international exchange system. Undoubtedly, we have made progress on the road to multilateral trade and exchange convertibility. The gradual liberation of sterling, the deutsche mark, and other European currencies has taken place, supported by flexible monetary policies. In the Far East, Japan has given a remarkable demonstration of the value of a firm monetary policy designed to stabilize international payments. Among our Latin American members, there has been a general and healthy trend toward more realistic foreign exchange structures, and less reliance on restrictions and multiple rates. In the field of my own personal experience, I may point out that in my country, with the help of a prudent fiscal and monetary policy, there has been a satisfactory period of expanding national income and increasing investment, while, at the same time, our foreign exchange and gold reserves have risen to the highest mark in our history.

In many of these efforts, the Fund has played an active advisory role. Despite the adverse conditions of past years, the Fund has continued to strive for freer foreign exchange practices in international transactions. Its efforts have begun to bear fruit, and it can be gratified with the remarkable liberalization which has taken place in international payments. I am confident that we shall see further progress in this field—progress which will be made easier by our greater use of the Fund's facilities for consultation and technical advice.

As a result of study and experience, the Fund's policies have been adapted to bringing its resources to bear in a wide variety of payments problems. We have seen this demonstrated in the last few months in the Fund's arrangements with Burma, Chile, and Peru. Our further progress toward a multilateral payments system may well bring additional occasions for operations of the Fund that will promote this effort.

It is also gratifying to note that some members have recently taken steps to obtain quotas in the Fund that are larger and more adequate to their expanding economies. The Fund has demonstrated confidence in the economies of its member countries, as shown by its financial transactions. And these countries, in turn, have demonstrated that they are worthy of this confidence. They have already repaid more than $1 billion in gold and U.S. dollars of the $1.3 billion they obtained through their transactions with the Fund. We may well feel confident that the resources of the Fund are now available, under more flexible terms and in greater amounts, for the purpose of overcoming problems of foreign exchange among member countries.

I should like at this point to turn to the Bank. It was the Bank's good fortune to have its initial years coincide with the advent of a growing conviction among nations that economic development had to be actively promoted—an opportunity and a challenge which have been accepted by the Bank and so competently handled that the Bank has become an outstanding insti-

tution. The Bank's operations already constitute one of the strongest pillars of international cooperation.

During its 10 years of activity, the Bank has developed new techniques of cooperation. It has employed, in international development loans, large capital resources which would otherwise not have been so used. It has spread knowledge and techniques of the best ways of preparing and executing programs of economic improvement. The Bank has participated in approximately 500 projects in 42 countries and has lent almost $2.75 billion in various currencies. During the past year of operations which we are reviewing, the Bank maintained the rapid pace of the preceding year. It granted more loans, and it lent almost as much money as in the fiscal year 1954-55. It continued its success in interesting private investors in its loans, notwithstanding money market conditions well known to all of us. Furthermore, it has steadily increased its uses of currencies other than the U.S. dollar.

At our Annual Meetings, we have frequently heard from the President of the Bank of the importance of the availability to the Bank of the 18 per cent capital subscriptions of its member countries. Some encouraging progress has been made; but we are far from the maximum support that member countries can extend within the possibilities of their economies. Mexico's 18 per cent subscription amounts to the equivalent of $11.7 million, of which Mexico has already released a certain amount. As a further measure of support to the Bank, I wish to announce that my Government has decided to release the whole of the remaining 18 per cent, chiefly in order to facilitate lending operations with our sister republics of Central America. While two thirds at least, therefore, is to be used for disbursement to borrowers making payment for Mexican goods and services, one third may be used for purchases in any country. With this action goes our hope that in the near future there will be a greater liberation of funds by other member countries, to the extent that their balances of payments may permit.

Foreign financial cooperation is an important complement to domestic resources. While it may bring great benefits, it must be remembered that true national prosperity everywhere can result only from the work and effort of the people of each country. In Mexico, for example, loans from the Bank have aided in doubling the capacity for generating electric power. The Bank's three loans to Mexico for this purpose, totalling $80 million, have contributed toward financing the generating of 800,000 kilowatts. The further loan of $61 million granted to the Pacific Railroad—the largest single loan so far granted in Latin America—is now financing the expenses in foreign currency of the rehabilitation of this railway which serves Mexico's northwest. Because of this, and of government investments in irrigation and the hard work of its people, economic development in that area in the last few years has been extraordinary.

As the representative of a country in the process of development, I recall that at Bretton Woods all nations were agreed that the primary task of the Bank was to channel resources toward reconstruction and development in those fields where private capital alone was unable to do the job. Mexico knows that balanced economic development at a rapid rate, and the consequent higher standard of living, depend largely upon providing private capital with favorable opportunities for investment in conformity with our laws and our institutions. In my country, this policy has recently been emphasized by the Chief of State.

Private capital alone, however, is not sufficient. There are tasks which it cannot accomplish. Experience shows that private investment is encouraged more where public investment has already provided certain facilities such as public utilities, irrigation works, ports, and highways. In other words, a proper public investment, far from reducing the inducement for private investment, really provides bigger and better opportunities. I want to assure my friends in the Bank that in Mexico there is no dilemma between private and public investment. They follow parallel roads, and both are contributing—as demonstrated by the facts—toward in-

creasing productivity and a higher standard of living. In the final analysis, these are the best guarantees of freedom and democracy.

Obviously, the financing of public investment must be made by each country with its own resources. However, we believe that if a country demonstrates its ability to assume new obligations, the Bank should respond by showing greater flexibility in its financing. The Bank has had no defaults in its loans and has been successful in recovering its money. It should, therefore, consider not only the immediate requirements of exchange for the direct purchase of foreign equipment, materials, and services, but also the indirect foreign exchange needs induced by domestic currency expenditures related to development projects and programs.

The Bank's task is to complement insufficient savings, and this insufficiency is independent of the particular currency in which it is expressed. For this reason, the Finance Ministers of the 21 members of the Organization of American States who met at Rio de Janeiro in November 1954 made a recommendation to the Bank that, in justifiable cases, it should accept applications for financing not only foreign exchange needs, but also expenses incurred in local currency. Private banks in the United States and Europe are making this type of loan, and their experience has been satisfactory. I am certain that the International Bank would fare likewise.

We share the Bank's concern over medium-term loans granted by suppliers who work under increasing competition in the capital goods market. The magnitude of obligations incurred in foreign currency, both for short and medium terms, reduces the capacity to assume long-term obligations, which are the most appropriate for large-scale development projects. Yet, it is only fair to concede that some countries have accepted such credits because of the increasingly favorable conditions on which they are offered and because it was the only way, at the time, to finance projects which were urgently needed. The remedy is to be found in more flexible forms of operation and in larger credits.

I wish to make clear that, when I speak of flexibility, I am not advocating abandonment of the principles which the Bank must uphold if it is to serve and protect the public which, throughout the world, has entrusted its savings to the Bank. Mexico has invested a modest, but, nevertheless, important portion of its reserves in the World Bank's capital and bonds and, like other investors, wants the Bank to make sound loans.

Perhaps the most characteristic fact of our times is that economic development almost overnight has become the goal and ambition of millions of people. The needs which this desire creates are immense; they are urgent everywhere, and they cannot be postponed. The Bank cannot meet all needs, but it can do, as it has already done, a great deal. Yet, neither the Bank nor its members can pause for self-congratulation or rest on past achievements. In numerous countries, the task of economic development has barely begun.

The efficient operation of the Fund and the Bank has been due to a great extent to the character and ability of Mr. Eugene R. Black, President of the Bank, and of Mr. Ivar Rooth, Managing Director of the Fund. I am certain that many Governors, from their year-round dealings with the heads of our institutions, are keenly aware of the extent to which the success of the Fund and the Bank is due to their leadership. The Governors join me in extending to them our sincere and cordial congratulations.

As a closing remark, I wish to urge that, as we all discuss our common problems, we bring to bear a genuinely enlightened approach which, while taking into account our domestic interests and aspirations, recognizes that in part our true national interests lie in effective international accomplishment. Let us listen with close attention and with good will to what each has to say. In this assembly of 60 nations, it is inevitable that not everyone can be satisfied. Nevertheless, unanimously and in all fairness, we must concede that the progress achieved has been great. We all have a right to expect even greater progress in the future.

PRESENTATION OF THE ELEVENTH ANNUAL REPORT

BY THE CHAIRMAN OF THE EXECUTIVE BOARD AND MANAGING DIRECTOR OF THE INTERNATIONAL MONETARY FUND[1]

Ivar Rooth

I should like to join our Chairman in welcoming the Governors of Argentina and Viet-Nam, which have become members of the Fund.

In presenting the Annual Report, I should like to supplement what the Executive Directors have said there with my own discussion of the work of the Fund—not only what it has already done in the first 10 years of its operations, but what it can still do to help its members to meet the problems that confront them. In a dynamic world economy, these problems cannot be the same now as they were 10 years ago; they will not be the same 10 years hence as they are today.

Postwar Reconstruction

For a great part of the past 10 years, many members of the Fund have been primarily concerned with problems of reconstruction and recovery. The early postwar economic difficulties arose from the fact that production in countries adversely affected by the war was not adequate to maintain a tolerable standard of living and at the same time to provide the real resources necessary for reconstruction. The attempt to meet such expectations of increased consumption and investment inevitably led to inflationary pressures, intensified by the easy money policy which was a remnant of war finance. The additional resources necessary for reconstruction were acquired through the large excess of imports in the early postwar years. The balance of payments deficits that this entailed were met by drawing down reserves and by aid from the United States and other countries.

[1] Session No. 2, September 24, 1956.

While it is not possible to set any precise time for the completion of reconstruction, a significant change in the world economic situation was evident by 1950. By that time, many countries were more and more placing development in the forefront of their economic programs. In most of Europe, both production and trade were greater than before the war. It was more difficult and took longer to restore the economy of countries in the Far East. In a few countries, production and trade are still below the prewar level; but this deficiency is being rapidly remedied. Even in countries outside the areas of active warfare, as in Latin America, the attempt to offset quickly the investment deficiencies of the war period resulted in inflation and large payments deficits. Inflationary pressures were greatly reduced with the restoration of production, the moderation of investment, and the revival of flexible monetary policy. Countries found that they could deal with their payments difficulties as ordinary economic problems that could be met through fiscal and credit policy.

An important objective of the Fund during the reconstruction period was to minimize exchange disorders in a world of large payments deficits, inconvertible currencies, and persistent inflation. In the field of monetary policy, the Fund was among the first to present the payments problem as one aspect of the economic disorder that grows out of inflation. As the period of reconstruction was drawing to an end, our Annual Report for 1949 discussed the need for devaluation as part of a program to strengthen international payments and to restore international balance. In September 1949, countries accounting for two thirds of world trade devalued their currencies to reflect the far-reaching changes that had taken place in the world economy during and after the war. On this and on other occasions, the Fund has made it clear that it does not stand for rigid exchange rates, but for orderly changes in parities when they become necessary.

The Fund began exchange operations very early in the reconstruction period. The Executive Directors were aware that this

involved risks; but they believed that it was necessary for the Fund to assume these risks. The nearly $800 million of exchange provided by the Fund from 1947 to 1949 was small compared with either the problems to be met or the aid provided by the United States and other countries. The Fund's help came, however, at an opportune time, after reserves had been drawn down to very low levels and before aid on a massive scale became available through the Marshall Plan in 1948 and later in other forms.

Recovery and Development

The mere attainment of the prewar volume of production and trade could not be regarded as satisfactory. A great expansion in production and exports was necessary to enable the industrial countries to put their economies on a self-sustaining basis and to establish a better balanced payments position. For many less developed countries, the basic problem was even more difficult. For them, a large increase in output was necessary to maintain minimum consumption standards for their growing populations and to provide savings to develop the economy. In this task of recovery and development, great progress has been made, despite the handicaps imposed by sporadic war and large defense expenditures.

In the past few years, production has expanded rapidly. Most industrial countries have overcome the adverse effects on production which had been left by war. In many less developed countries, the economy has begun to acquire a momentum that should facilitate future growth. There has also been a striking recovery in trade and in the reserves of many countries. The value of world trade has increased by about 60 per cent since 1950. For several years, the payments of the rest of the world with the United States have been in surplus if receipts from U.S. aid are included. Since 1950, the gold and dollar reserves of the rest of the world have increased by more than $10 billion. It should be borne in mind, however, that extraordinary U.S.

Government financing may not continue indefinitely and that, despite the increase in gold and dollar holdings, the reserves of some countries are still inadequate.

Much of the improvement in world payments has been the result of financial policies that have minimized but not entirely removed the danger of inflation. In some countries in all parts of the world, government and private expenditures on investment are still in excess of their own savings and the capital inflow from other countries. In many countries, the increase in wages has been exceeding the increase in productivity. Nevertheless, the problem of inflation is of a different order from that of the early postwar years. The danger now is not one of runaway inflation, but of a persistent rise in prices and costs. There may continue to be pressure for more investment or more consumption, but the solution of these basic problems cannot be found in inflation.

The Fund has always placed great stress on the role of a flexible financial policy in dealing with payments difficulties as they emerge. The Fund has made special efforts to encourage a policy of development with stability. Although aware of the need for sound financial policies, many less developed countries seem unable to resist the temptation to finance development with bank credit when their own savings and the flow of capital from abroad are not adequate for urgent requirements. Such a policy is self-destructive. It destroys the incentive to save and the ability to attract foreign capital, both of which ultimately depend upon the adoption of policies that create confidence.

Current Economic Problems

This brief survey of the postwar period is intended to emphasize the vast changes that have taken place during the last 10 years. The economic problems with which members of the Fund are confronted are, with few exceptions, no longer those arising from the destruction and disruption caused by the war. Economic growth and development in the next decade may be far beyond the hopes

of the last generation if a peaceful environment can be created and arms expenditure reduced. Even under present conditions, production will probably grow at a satisfactory rate in the industrial countries and may be accelerated in many of the less developed countries.

While the expansion of production and trade has been interrupted for brief periods from time to time, the danger of deep and prolonged depression has so far been averted. At the end of last year, there was a pause in the growth of industrial production in the United States and Canada and in nearly all countries in Western Europe. There has been no recession in any of these countries and, in several, the expansion of industrial production has been resumed. World trade has not been affected by the slowing down of industrial production. In fact, the expansion of world trade has been an important element of economic strength during recent months. It is, however, regrettable that in many countries there has recently been increasing group pressure for protection in various forms, and that the tendency toward free trade is not so strong as it was some years ago.

The effect of economic fluctuations on international payments is especially significant to raw materials exporting countries. Generally speaking, changes in industrial production are accompanied by changes in the volume of raw materials exports and in their prices. For countries whose foreign exchange receipts depend upon exports of a few sensitive raw materials, sharp fluctuations in world markets for their products may impede their efforts to secure orderly development of the economy and a rise in the standard of living.

The disposal of surplus commodities by one country may disturb the normal markets of other countries. Similarly, sudden changes in the stockpiling of strategic materials are, of course, unsettling to commodity markets.

Fluctuations in international markets for raw materials would subside to some extent if international tensions were reduced.

In any case, much can be done to alleviate the effects of fluctuations in the exchange receipts of raw materials exporting countries without entering into commodity stabilization agreements. This would involve the accumulation of gold and foreign exchange reserves during periods of high export earnings, to be drawn upon when prices are low and the export proceeds of a country are falling. In such situations, it is reasonable for the Fund to be liberal with drawings, provided the member is following good policies, and thus will be able to repay the Fund and rebuild its reserves when commodity markets improve. This is not the whole solution to the problems arising from fluctuation in raw materials markets, but the Fund could be of material assistance in minimizing the adverse effects of a sudden fall in foreign exchange receipts. The tendency in some countries to import certain commodities as a reserve against crop failures or shortages should also prove to be a step in the direction of greater stability.

The real threat to the payments position of most countries at present does not arise, however, from economic fluctuations abroad. It arises rather from tendencies toward a persistent price and cost inflation which originate in excessive public and private expenditure for consumption and investment, and in an increase in money incomes that exceeds the increase in productivity. This threat to monetary stability is not necessarily confined to countries with payments difficulties. The world is confronted with a challenging problem—to reconcile development and full employment with monetary stability in a political environment which is still uncertain. The solution of this problem calls for statesmanship of a high order in all sectors of economic and financial policy.

There is one field in which current practice has not always been sufficiently adjusted to changes in economic conditions. The Fund Agreement provides that five years after the Fund begins operations and in each year thereafter any member still retaining restrictions under the provisions of the transitional period must consult with the Fund as to their further retention. Since 1952, the Fund has accordingly been holding annual con-

sultations on the exchange restrictions still maintained under the provisions of the transitional period. In these consultations, the Fund has stressed the importance of the relaxation of exchange restrictions as the payments positions of its members improve.

In fact, there has been a considerable relaxation of exchange restrictions in recent years. Even where the legislation authorizing exchange controls has not been modified to any great extent, the actual restrictiveness of the controls has been reduced by more liberal licensing policies. In some countries, exchange controls are now more or less nominal, retained for possible need in the future. The experience nearly everywhere has been that, once restrictions are relaxed, the exchange authorities are reluctant to reimpose them.

The ultimate elimination of all restrictions and discriminations involves the establishment of convertibility, particularly of the currencies of the great trading countries. The convertibility of sterling, one of the two principal reserve currencies, is clearly of strategic importance. Although their currencies remain inconvertible, the United Kingdom and most of the countries in Western Europe have made them transferable over a wide area. This extension of transferability is still going on and it has resulted in a steady approach toward the equivalence of these currencies and dollars.

As a consequence of wider transferability, some of the practices associated with inconvertibility are being moderated. Bilateralism has been substantially reduced during the past year or two. As progress in this direction continues, the patterns of multilateral trade that evolve will more nearly approximate those that would prevail under convertible currencies. Progress has also been made toward reducing the dollar import discriminations, which are a practical consequence of inconvertibility. In some countries, dollar discrimination is now negligible or nonexistent. What remains today is relatively small in comparison with such discrimination five years ago.

The problem of convertibility is not merely a legal problem. What matters most is that countries earning any currency should be able to use their receipts to buy imports from any country and to make payments in any currency. The practical problem is to find the means to move gradually from the transitional arrangements under inconvertibility to full-scale convertibility without risking the progress already made in strengthening the pattern of world payments.

The Task of the Fund

The Fund is prepared to help its members to deal with the payments problems that will arise in an expanding world economy. Although temporary setbacks may be unavoidable from time to time, progress in relaxing restrictions and discriminations should be accelerated as exports become large and deficits become relatively small. The Fund Agreement recognizes that the *general* use of exchange restrictions may be necessary at a time of world-wide payments difficulties. Once these difficulties have been met, it is contemplated that members will secure Fund approval for the temporary retention or imposition of such specific restrictions as are or may become necessary. Restrictions and discriminations cannot be regarded as a substitute for financial policy in dealing with underlying payments problems, or as a substitute for use of reserves and credits from the Fund in dealing with temporary payments difficulties.

Our members have shown that they regard drawings on the Fund as equivalent to the use of their own reserves—to be drawn as needed and to be replenished when the need has passed. Progress has been made in recent years in giving members greater assurance that they can count on help from the Fund to meet temporary balance of payments difficulties. Our members have, as you know, practically complete freedom to draw the equivalent of their gold subscription to the Fund, what we call the gold tranche. As has been said in the Annual Reports for 1955 and 1956, our attitude is liberal toward drawings in the first credit

tranche, that is where a drawing would increase the Fund's holdings of a currency to between 100 per cent and 125 per cent of the quota. Members should have no doubt that, given the need and justification, drawings on subsequent tranches will be permitted.

During the past three years, eight exchange transactions and four stand-by agreements have been for amounts in excess of the 25 per cent of quota originally mentioned in the Articles of Agreement as the normal limit; the Fund has waived this limitation in each of these cases. The comparatively frequent use of the waiver has shown that drawings in excess of quota limitations are not to be regarded as something so exceptional as to be of little practical importance to members. The Fund and its members understand now much better the manner in which assistance from the Fund can be integrated with the use of their own reserves. I am confident that the resources of the Fund will be used to an increasing extent and that they thus will become an even more important addition to the reserves available to its members than they have been in the past.

I believe that there has been a steady strengthening of the mutual confidence between the Fund and its members. An increasing number of our members have come, and will probably continue to come, to us for advice and assistance on a whole range of problems. It is the hope of the Fund that more determined efforts will be made by its members to stabilize their economies and to put into effect the fair exchange practices for which the Fund stands. Members, in turn, will need and will be able to obtain more assistance from the Fund, both technical and financial. If they were to approach the Fund confidentially and in good time, it would often be easier to work out a reasonable and helpful solution to their problems. The Fund has sometimes been confronted with measures on which a decision had to be taken within a few days, without sufficient information and to which, therefore, the Fund could not give adequate consideration.

The objectives of the Fund will be achieved only if its members are prepared to pursue financial policies that are consistent with the maintenance of a balanced payments position. Even large reserves and generous assistance from the Fund and others cannot, in the end, prevent balance of payments difficulties in a country that does not act effectively to prevent price and cost inflation. On the other hand, a country that pursues sound policies will find that it can deal with the payments difficulties that arise, relying on the use of its own reserves and assistance from the Fund. The greatest contribution that members can make to their own well-being is to direct their financial and monetary policies to internal stability and external balance.

With this Annual Meeting, I bring to a close my five years of service in the Fund. It has been a stimulating experience to work with the officials of our members and the distinguished men on the Board of Governors. I want to express my appreciation for the loyal and devoted efforts of my associates on the Executive Board and my colleagues on the staff. I welcome my successor, my fellow countryman and friend, Mr. Per Jacobsson, and I leave the Fund with my best wishes for all who will guide it in the years to come. I have faith in the efficacy of international monetary cooperation and in the successful collaboration of the Fund and its members.

DISCUSSION OF THE ELEVENTH ANNUAL REPORT

Statement by the Governor for Yugoslavia[1]

Nenad Popovic

It was with feelings of confidence that at our last few Annual Meetings we have been able to turn our gaze backwards noting the positive achievements of the past and at the same time to look forward into the future with more justified expectations and hopes.

It is, nevertheless, true that this experience indicates no more than the existence of a movement toward the solution of our problems. Certainly it does not mean that the problems have been solved. What the solutions will be and when they will be reached are still uncertain. The problems themselves, on the other hand, are real and urgent.

I can agree without qualification that the challenging problem with which the world is confronted today is that of reconciling development and full employment with monetary stability in a political environment which is itself uncertain. In other words, how can we reconcile an expanding economy with stability, or better still, how can we assure stability to an expanding economy? The results of the last few years appear to show that it has been the policy of expanding our productive forces as well as our production that has made the achievement of some sort of stability at high levels of employment possible. It would be idle to argue here all the academic possibilities and all the aspects of this problem. It is, however, important, and indeed, essential, to take into consideration the fact that certain responsibilities in relation to the problems are imposed upon all of us both by logic and by necessity. While these responsibilities—for full employment and for development—are worldwide, the problems of full employment are more prominent in industrialized countries, those of development

[1] Session No. 3, September 26, 1956.

in the backward areas. The two problems are, in fact, parts of one general problem, which presents itself in different ways according to the varying conditions of specific individual countries. They provide the foundation for our national economic policy, and, therefore, for the national responsibilities that have to be faced. Together they constitute the one universal problem of an expanding world economy, of the progress of humanity as a whole. When viewed in this light, they are seen to be also an international responsibility, and will more and more come to be so regarded. Moreover, the two types of responsibility are closely interrelated. There is a national responsibility to the world community, and, at the same time, the international community has a responsibility to each individual country to help it in its efforts to achieve its national goals of full employment and development.

We do not speak here of priorities. There is no need to determine whether stability should be rated higher or lower than full employment and development. The objective we must set before us is that of a dynamic expanding economy, in which both full employment and development are harmonized with stability. We should regard full employment and development as forces of progress which will enable us to move ahead with an assurance of greater stability. Nobody wants stability of poverty, of unemployment and backwardness. The stability that we want must be achieved at higher levels of production and productivity and with higher standards of living. These goals, of course, cannot be reached if stability is forgotten, neglected, or pushed aside. We are not, however, dealing with mere abstract notions, but with relations and processes that are very concrete. Dynamic stability, not static stability, is our objective.

The experience of the last five years, especially in the industrialized countries, shows that employment levels can be raised at the same time as more stable relations are established. This has been true of individual national economies, but it has also been true internationally, or at least regionally. It would of course be

dangerous to simplify the problem by ignoring the adjustments which the war and the cold war that followed it have required. These influences give a specific quality to the present level of employment, and their effects will continue to be felt. The urgent problem, however, is to rule out the very real possibility that inflationary pressures may re-emerge as the result of our movement to very high levels of economic activity. How can we continue to move forward without overdoing it, or without any risk of retrogression?

The whole problem is much more complex for those economies which at the same time have to struggle for development. It is not difficult to see that for them the problem is one of insufficient capital formation, which is not compensated by an adequate flow of finance for development from abroad. Internally the problem expresses itself in inflationary pressures, externally in balance of payments deficits, which in turn worsen the conditions of international trade, and in fact create a framework for the imposition of restrictions or the maintenance of restrictions already in operation. For economies concerned with development, the solution must, therefore, be closely related to better and more adequate international long-term financing.

One part of this job has been performed, and is still being performed, by the International Bank for Reconstruction and Development. The figures show that the Bank has been able to make a remarkable contribution. The Bank's achievement is one on which we can look with some satisfaction. But the Bank's activities are still lagging far behind the most elementary current needs for development. It is, therefore, to be hoped that it will be able not only to continue its present rate of activity, but to enlarge and broaden its work in the future, by using its own resources more liberally, in terms both of quantity and of the conditions associated with Bank loans, as well as by further reliance on the resources of capital markets. In any event, it is absolutely necessary to embark more energetically on large-scale international

efforts to ensure development financing on a worldwide scale. In this connection, the efforts undertaken through the United Nations, and in particular the Special United Nations Fund for Economic Development scheme, deserve special attention.

It is under these highly unfavorable conditions of almost non-existent, and certainly quite inadequate, finance for development that the International Monetary Fund has to strive to achieve its purposes. It has to assist its members to build up firm economies for which adequate foundations are in fact lacking.

It would indeed be wrong and harmful to suppose that the International Monetary Fund ought to be something different from what it actually is. It has weathered the difficulties of the postwar transitional period. It has maintained intact and liquid its very substantial resources, which today are more and more becoming a genuine international monetary reserve. It is realistic to expect that maybe very soon the Fund will become much more active through a more active use of its resources.

To say this is not in any way to belittle the Fund's activities in the past. Just the contrary is the case. We must not forget the Fund's strenuous efforts for the elimination of many ideas which have had harmful effects on international economic behavior, or its constant admonitions concerning the effects of inflationary finance. When today we speak of the indispensability of stability in an expanding economy, we are in fact speaking in terms of the policies of the Fund. We are fully aware, for example, of the fact that bilateralism—which in the past has been, and still is to some extent, a necessity—is today an obstacle to the creation of a freer world market where, by means of multilateral trade and transferable foreign exchanges, we might move closer to a more economic international division of labor. A world market of this kind is not only our goal—it is even more the means for progress toward an expanding national and world economy in which both higher employment and more rapid development will be attained.

Such a movement must mean a greater volume of international trade, more exports and more imports, trade which is not confined within bilateral fences, but in a freer and wider world market, trade with more countries and with fewer restrictions.

This movement will not only strengthen the production and trade of national economies, but will also mean more independent national economies, which will then be in a stronger position to cooperate internationally. We in Yugoslavia can appreciate the importance of these goals, because in our own experience we have come to know what the burdens of development are, and we understand even more thoroughly the meaning of the chains of backwardness. We feel the limitations imposed by bilateralism; we realize the advantages of multilateral trade, as well as those of a freer measure of transferability in international payments. And we know also the best way out of our difficulties is by ensuring the stability of an expanding economy which will enable us to diversify and increase the volume of our foreign trade.

Today the political waters are still troubled. We have peace, but we have still got to fight for it. Those who are prudent realize that war cannot and must not be the means for settling differences. Force and aggression must be put where they properly belong—in the criminal sector of international behavior. For all these reasons, it is necessary today to strive for sound international economic relations, free from imposed and negative political interference. Sound economic relations will then provide the material foundations and framework for a more peaceful world. This will be achieved as we succeed in expanding the international economy, ensuring stability together with high levels of employment and more rapid development, on the basis of greater and freer international trade and a more economic international division of labor. Only in this way can we help to eliminate the evils of a world divided by the extremes of poverty and prosperity, the contrast between backwardness and progress.

Statement by the Alternate Governor for Mexico[1]

Rodrigo Gomez

It is with great pleasure that the Mexican Delegation congratulates the Board of Directors on their excellent presentation of the over-all monetary and exchange situation. We have also listened with great interest to Mr. Rooth's keen analysis of the task which confronts the International Monetary Fund and its members in attempting to solve the challenging problems of a world which is striving for ever higher levels of production and international trade.

The problems faced by different countries, which are a consequence of the structure of their foreign trade and the particular behavior of the demand for and the price of various groups of export commodities, have indeed been superbly presented. This approach greatly contributes to an understanding of the strong dynamic forces which determine the status of a country's economy.

The experience in recent years of many Fund members whose currencies are convertible or are acquiring features of convertibility provides an important lesson which must be constantly stressed. National policies aimed at convertibility and multilateralism, in addition to sound economic policies on the domestic front, contribute greatly to increased production and efficiency, and, consequently, to higher standards of living. These remarks, the Mexican Delegation feels, are especially timely now that we are witnessing a gradual abandonment of exchange and foreign trade practices of a restrictive or bilateral nature in many industrial and primary producing countries.

The recent experience of my own country, Mexico, which corroborates that of some other countries, is a very good example of the over-all benefits that may be derived from following a policy of freedom in exchange transactions. It is significant that such benefits are obtained not only in the broad field of

[1] Session No. 3, September 26, 1956.

economic development, but also in monetary and financial problems of a short-term nature.

By maintaining absolute freedom of exchange and endeavoring to solve its economic problems through general fiscal and monetary policies, Mexico has fulfilled the basic objectives of the Fund. The facts prove that, in following such policies, the economic development of Mexico has not been impeded; on the contrary, in the last two decades a very high rate of increase in production has been achieved, both on a total and a per capita basis.

Particularly in the last three years, by following the path of sound domestic monetary and fiscal policies, we have been able to lay the foundations for a prolonged period of monetary stability, as promised by the President of Mexico. The immediate beneficial effects obtained may well be exemplified by the fact that, during 1955, it was possible to double the foreign exchange reserves of the country, while the money supply increased by approximately only two thirds of the increase in such reserves. At the same time, national product in real terms rose at a rate of 10 per cent per annum. During the first eight months of 1956, production in real terms continued to expand at a high rate, while the price level and the money supply remained stable.

There is no denying that this improvement has not been the result of domestic economic policies alone, but also of the very important fact that, with significant exceptions like cotton, foreign markets have been satisfactory due to increased production in industrial countries. Further help has also come from greater convertibility and transferability throughout the world. However, it must be mentioned in this respect that there is still much ground for constructive thinking regarding additional steps that could be taken to foster the process toward freer exchange transactions and also to coordinate the measures adopted by one or several countries.

If ways have been found to put on a multilateral basis the bilateral transactions that some countries conducted with their

European trade partners, ways may undoubtedly be found to extend such multilateralism to trade between countries with not fully convertible currencies and the less developed countries of the dollar area. The latter need to compete on equal terms in international markets. They are well prepared to compete. Moreover, their growing purchasing power is a factor that European countries will increasingly take into account.

There is obviously good reason to devote our thoughts and efforts, under the expert guidance of the Fund, to the solution of the above-mentioned problems. We must not forget that they affect many of those very members whose exchange transactions are already in line with the Fund's ultimate purpose.

I would not wish to conclude these remarks without expressing our warm thanks to the Fund's very competent staff and management for the assistance which they are always ready to extend to member countries. The Mexican Delegation would also like to convey its special appreciation to the Managing Director, Mr. Ivar Rooth. The imaginative ability and the devotion with which he has carried out his duties deserve our highest praise. We take this opportunity to extend to him our heartfelt recognition and esteem.

STATEMENT BY THE GOVERNOR FOR CANADA[1]

Walter Edward Harris

From the beginning, we in Canada have attached great importance to the success of the Fund. Amongst other important reasons for this, we have seen in the Fund a means of helping countries establish currency arrangements which would enable them to get as much benefit as possible from their trade with each other. This will be accomplished to the extent that currencies are convertible and trade is free of repressive controls. A properly functioning system of multilateral trade and payments is of great

[1] Session No. 3, September 26, 1956.

importance to a country like Canada which has a large volume of trade now amounting to about $10 billion a year.

But it is not only in our own national interest that we hold these views. For, as the Fund Agreement witnesses, it is in the general interest of all of us that progress should be made along these lines as rapidly as possible. The retiring Managing Director put the point very well when he said on an earlier occasion: "The reduction of such restraints on international trade and payments is not a favor conferred by one country on another. Rather it is a logical and necessary step through which a country secures for itself the widest participation in an expanded volume of world trade."

When the Fund Agreement was drafted, it was recognized that some members would require time to recover from the effects of the war before they could develop exchange arrangements of the type which the Fund Agreement sets up as standard, i.e., arrangements in which currencies are convertible and discrimination is avoided. In some ways, the 10 years which have elapsed since the Fund Agreement was drafted have proved more difficult than was foreseen. World tensions have added to payments difficulties by distorting normal channels of trade and by causing an enormous diversion of resources into armaments. On the other hand, not all the factors which were not foreseen at Bretton Woods have been of an unfavorable character. No one could have foreseen the extent to which the United States and other countries, through their foreign aid programs, would help in the economic recovery of the rest of the world. Further, the surge of economic progress in the United States during the past 10 years has been more continuous and far-reaching than was generally foreseen, and this has been a source of strength to the rest of the world.

As things have turned out, both the economic position and the payments position have, particularly during the last few years, developed along favorable lines in most countries, although progress has been greater in the industrial than in the less de-

veloped countries. World production and trade have risen very rapidly, and the world has been able to add substantially to its reserves of gold and dollars. To some extent, this improvement can be accounted for by dollar outlays associated with the economic aid and defense programs of the United States, but there has also been a substantial increase in the amount of dollars that other countries have been able to earn by the sale of goods and services. In addition, there has been a considerable outflow of capital from the United States for private investment abroad.

These favorable developments have led many countries in various parts of the world to relax their exchange restrictions quite considerably. While only a handful of the members of the Fund have assumed the legal obligations of convertibility, a number of countries in Western Europe have made such progress in doing away with exchange restrictions that their currencies are for all practical purposes convertible, at least in the hands of nonresidents. Some of these countries have also gone a long way toward doing away with discrimination in their import restrictions.

At the same time, there still remains in most countries a considerable body of restrictions and discrimination, particularly against the dollar countries. I am sure my colleagues will agree that, while we should welcome the progress which has been made, the Fund should watch this situation carefully and give continuous thought to how it can most usefully and effectively encourage and help its members to move toward convertibility and nondiscrimination.

Looking back at the 10 years that have gone by since the Fund began operations, it seems to me that we can draw the conclusion that the objectives embodied in the Fund Agreement remain today as valid as they were when the Agreement was drafted. These objectives include the expansion of trade, the promotion of international monetary cooperation, exchange stability, the avoidance of exchange restrictions and discrimination, the establishment of convertibility and a multilateral system of payments. There is

naturally room for discussion as to whether one would today draft each provision of the Fund Agreement in precisely the same way (and I confess that I am thinking particularly about some of the provisions regarding the par values of currencies). Nevertheless, I think one can say without qualification that the interests of all of us will best be served to the extent that we are able to accomplish the general purposes for which the Fund stands. The progress that many countries have made toward these objectives, in spite of great difficulties, provides real evidence that they are not remote ideals, but that they are very practical methods of increasing our prosperity and well-being.

At the same time, we should not underestimate the remaining difficulties. Some people have laid great stress on the uncertainties associated with the flow of dollars derived from important noncommercial items in the accounts of the United States. Moreover, inflationary pressures have reappeared in various parts of the world and in cases fresh balance of payments difficulties have arisen. Finally, we must take special account of the position of underdeveloped countries, who naturally desire to press forward with their economic development. The monetary and exchange problems of these important parts of the world require discerning and sympathetic treatment, which I am sure the Fund should and will be prepared to give them.

If I may sum up these observations at this point, I would say first that the aims of the Fund are desirable today as they were at Bretton Woods; second, that these aims are more attainable and less remote than they have seemed many times since Bretton Woods; and third, that, if we can strengthen the Fund, we shall achieve our aims more easily and more quickly.

I should like now to place before my colleagues for consideration a suggestion regarding the working methods of the Fund which, if adopted, would, I think, increase the effectiveness of the institution. As my colleagues are aware, the main business of the Fund is transacted by our Executive Directors sitting under

the Chairmanship of the Managing Director. Most of the Executive Directors, like their Alternates and like the members of the staff of the Fund, live in Washington and work most of the time at the headquarters of the Fund.

We have been wondering whether the Fund, as an institution, might not be stronger and more useful to Fund members if, with the staff and the Alternates continuing to reside here, more of the Executive Directors were chosen from senior officials of treasuries or central banks who would continue to have operating responsibilities in their own countries. These Directors would come to Washington a few times a year for scheduled meetings to deal with policy questions and other important matters which were ripe for consideration. Any routine matters, and such occasional emergency situations as might arise, could be dealt with in meetings chiefly attended by Alternates who would, of course, keep in touch with the Directors and the countries they represent by the rapid means of communication now available.

No change in the Fund Agreement or By-Laws would be required to put this proposal into effect. All that would be needed would be that the Executive Board should so arrange its business that there would be only a limited number of meetings each year at which important policy questions would be placed on the agenda. This would enable the Executive Directors to combine their operating responsibilities outside Washington with periodic trips to this city for Fund sessions where they would meet their colleagues from other countries and deal with Fund business.

I can see several advantages which the Fund and its members might derive if the Executive Board were to operate along these lines. Perhaps the most important is that one would hope in this way to make the Fund a more effective instrument of consultation and collaboration. The presence at important policy discussions at the Executive Board of a considerable number of persons with operating responsibilities is likely to make these discussions more purposeful and concrete.

In addition to increasing the effectiveness of the Executive Board, it seems to me that the suggestion we have in mind would also give rather more scope to the Managing Director and his staff. I would lay particular emphasis on this point because it seems to me that a very important part of the Fund operation should consist of frequent intimate contacts between the top staff of the Fund and treasuries and central banks in which information is given and ideas exchanged. A change along the lines of this proposal would, I think, make it more possible for the Managing Director and the international staff to develop relations of this character with members.

A further advantage of holding meetings of the Executive Board a few times a year attended by officials with operating responsibilities would be the opportunity these meetings would provide for discussions and the exchange of information and opinion on many matters of interest in the financial field. Western European countries already enjoy these facilities in connection with meetings of the Managing Board of the European Payments Union, the Bank for International Settlements and other institutions, and I believe that the adoption of similar working methods by the Fund might be of great benefit to non-European members. By the same token, it might be beneficial for European countries to hear the views and learn at first hand the problems of other countries which the opportunity to talk things over would provide.

As I said a moment ago, no change in the Articles of Agreement or the By-Laws is required to put this suggestion into effect. Two or three of the 16 Fund's Executive Directors already combine their Fund functions with operating responsibilities outside Washington. I realize, of course, that all countries may not find it practicable or even desirable to be represented by an Executive Director with the type of responsibilities I have suggested. I do not think that any rigid rule need be observed, though one would, of course, hope that a considerable number of countries would think well enough of the idea to give it a trial.

The Executive Directors merit our sincere thanks for the arduous work they have been doing on our behalf. I believe that a change along the lines of my suggestions might make this work still more effective. Like any other developing institution, the Fund can usefully reappraise its procedures from time to time. A very important task lies ahead of us in furthering the progress toward convertibility, nondiscrimination and orderly exchange arrangements and, not least, in providing an effective mechanism through which we can consult and cooperate with each other in international financial matters. It is as a possible contribution to our success in this task that I put these ideas forward for your consideration.

Statement by the Governor for the Dominican Republic[1]

Milton Messina

On behalf of the Delegation of the Dominican Republic at this Annual Meeting of the Board of Governors of the International Monetary Fund, I take pleasure in conveying my sincere congratulations to the Executive Directors for the excellent Report presented to the Board of Governors and, particularly, to the Chairman of the Executive Board, Mr. Ivar Rooth, for the splendid achievements of this institution during the fiscal year ended April 30, 1956.

It is indeed encouraging for the members of this institution to note a substantial improvement in the field of international exchange reserves in 1955, and that, consequently, exchange discriminations have diminished, facilities for the transfer of certain currencies have been broadened, and payment discriminations as a result of bilateral agreements have all had a lessened bearing on international trade.

[1] Session No. 3, September 26, 1956.

It is also encouraging to learn that extensive projects for the increase and diversification of production in the less developed nations are being successfully undertaken and that there has been a substantial increase in the output of the economically more advanced countries.

Nevertheless, we still have far to go in order to banish from international trade some of the basic obstacles that hinder a more extensive integration of trade among our countries. Collective as well as individual efforts are necessary if we are to cope with the problems of overproduction of agricultural commodities in industrial countries, as well as that of finding adequate outlets therefor.

The inflationary pressures exerted upon many nations must be avoided and stable balances of payments must be secured, especially in countries exporting raw materials which find themselves hampered in their economic development programs because of fluctuations in the prices of their basic export commodities.

All efforts tending to increase production in underdeveloped countries are thwarted by fluctuations in their export receipts, particularly in those countries with yearly increases of exports. Therefore, the international reserves of those countries are insufficient to attain a balanced development and their foreign exchange is reduced to inadequate levels as they must perforce invest all their export proceeds in foreign currencies in order to carry out urgent programs for economic development.

The Dominican Republic is one of those countries which have suffered from these fluctuations in export earnings. Although its exports in 1955 were considerably greater than in 1954, its earnings on this score decreased by 5 million pesos.

Likewise, during this same period, imports increased from 94 million pesos to 112 million pesos, a 20 per cent increment stemming from the extraordinary public works program carried out by the Government to hold the Fair for Peace and Brotherhood in the Free World.

These factors reduced the trade balance, which in 1954 showed a favorable margin of 20 million pesos, to 3 million pesos for 1955, and caused the Central Bank's official reserves in foreign exchange to remain at the same level as before, which brought about a difference of 38 per cent to 32 per cent between said foreign exchange holdings and the total of imports.

The difficulties caused by the decline in the prices of our export commodities notwithstanding, the Dominican Republic's economy maintained its rapid expansion due mainly to the considerable investments made by the Government in public works which, in turn, contributed effectively to an improvement in the standard of living of the entire population and to the maintenance of a high rate of employment. In fact, these outlays, which amounted to 50.9 million pesos in 1954, increased to 63 million pesos in 1955, and in private enterprise the increase was from 30 million pesos to 38 million pesos, with over-all national production rising–according to preliminary estimates by the Central Bank–from 471 million pesos in 1954 to 542 million pesos in 1955.

In comparison with 1954, monetary conditions were characterized by an expansion in money supply within a relative price stability and a total absence of inflationary problems which might affect the international parity of the Dominican gold peso.

As was to be expected, currency expansion was determined by local factors and not by a favorable trade balance as in 1954.

Although there was a considerable rise in nominal wages, it was offset by an increase in the availability of goods and services inasmuch as prices underwent merely a slight increase. This expansion in currency had no inflationary impact. This was so because the increase in the production of goods and services and a tendency among private sectors toward saving accounts in commercial banks voided inflationary trends. These favorable circumstances induced the Monetary Board to avoid any restrictive policy in granting credits to commercial banks, as well as the practice of any method of contraction such as an increase in the legal reserve funds, an

increase in rediscount rates and the sale of securities in the open market.

The Dominican Republic remained free of any foreign debt in 1955 and, although there was an increase in short- and medium-term liabilities in foreign exchange contracted by commercial banks and the Central Bank, its international exchange reserves remained at satisfactory levels.

As a result of the increase in the price and volume of sugar and coffee exports during the first six months of the current year, the balance of trade exceeded that for the same period in 1955. Consequently, our balance of trade showed a surplus of 18 million pesos as compared with the 12 million of the preceding year, and this explains why our international exchange holdings increased in relation to the balance as of December 31, 1955.

On the other hand, domestic payments have decreased with a satisfactory currency stability prevailing, as reflected in the maintenance of a stable level of loans in private sectors as well as within official institutions.

Moreover, prices remain steady and Government investments in public works, in keeping with the policies launched by Generalissimo Trujillo, maintain a satisfactory level of employment and a very high standard of social welfare.

Due to the steadiness of export prices as well as the increase in export production and the Government's program for outlays, prospects for the second half year are encouraging indeed.

As matters stand, it is to be expected that at the end of this year our balance of trade will even surpass last year's, and that the 1954 top levels in international exchange reserves will be reached again, provided, of course, that there be no impairment of trade relations and that industrialized countries maintain their high employment rate in order that the demand for our exportable surpluses remain at the same level.

May I avail myself of this occasion to point out that the Dominican Republic has never failed to extend its full support to the International Monetary Fund and, in fact, has accepted the commitments contained in Article VIII of the Fund Agreement, has maintained a stable rate of exchange, and does not apply payment restrictions to international transactions.

As an acknowledgement of confidence in this international institution and basing itself in such policies, the Dominican Government has deemed it advisable to apply for an increase in its quota[1] in the Fund.

Finally, I wish to congratulate the members of the Executive Board for the wise policies adopted by them during the past fiscal year, especially those sound measures relating to the employment of the Fund's resources and to investing a given amount of its assets in gold in readily negotiable United States Treasury paper. The latter decision,[2] which was adopted with the object of balancing the Fund's budget, has our support, and we hope that at the close of the next fiscal year its results will have proved profitable for this institution which is dedicated to such lofty aims in the field of international economic relations.

STATEMENT BY THE GOVERNOR FOR THE UNITED KINGDOM[3]

Harold Macmillan

I would like first of all to congratulate Mr. Rooth, the Executive Board and the staff on their Annual Report for 1956.

As in past years, this Report constituted an interesting survey of international financial development. It is, therefore, of great value to member Governments as well as to all students of these problems.

The year which the Report covers has included the tenth an-

[1] Resolution No. 11-6, page 142.
[2] *Annual Report,* 1956, page 147.
[3] Session No. 3, September 26, 1956.

niversary of the Fund, and I am glad to learn that it has decided to mark the occasion with the publication[1] of an account of the Fund's activities during this period. This anniversary presents a most suitable opportunity for stocktaking, for reviewing the past and for drawing lessons for the future.

When the Inaugural Meetings were held at Savannah in March 1946, there were many apprehensions regarding the future of the Fund. The difficult economic and political conditions of the time made many people ask whether it would not be better to delay setting up the Fund until greater stability had been achieved. There were fears that the upheaval and disruption of the war would make it impossible for member countries to live up to the principles and precepts which the Fund's Articles lay down.

In fact, however, as we look back on the past 10 years, we see how different the problems with which we have had to grapple have been from those which were expected. We have not yet achieved the conditions in which all members can dispense with the transitional provisions of Article XIV. What we have achieved —and it is a major achievement—is the habit of cooperation in financial and monetary matters. Members are now prepared to discuss with other members questions which once they would have refused to contemplate as suitable for international discussion. This has been a great gain to us all. We have all also benefitted from the wisdom and expertise which the staff of the Fund have been developing over these 10 years. But the Fund is not yet all it could be and, however good its staff is, in the ultimate the Fund can only be as effective as its members wish it to be. We must continue to explore ways for making the Fund more effective, especially in those respects in which development has been less marked.

In the national field also, we have had to re-examine a good many of the ideas and the beliefs we held 10 years ago.

[1] *The First Ten Years of the International Monetary Fund.*

In the United Kingdom, for instance, as indeed in most of the industrial countries, everyone was worried immediately after the war with two fears—deflation and unemployment. But, in fact, what we have had to deal with all the time has been the problem of securing economic progress without inflation.

Again, when the war ended, we were much concerned as to how the surplus productive resources created by the war were going to be harnessed to peacetime uses. But instead of the disarmament we all expected, we have had to meet a very heavy burden of defense, and no surplus resources have emerged.

Ten years ago, our chief anxiety in external matters was the dollar gap. In the last few years, we have been thinking in terms of earning our share of the dollar surplus—a surplus which was certainly not expected and has been maintained perhaps by generosity rather than trade.

However much some of our expectations may have been falsified, no one, I imagine, would dispute that it was recognized then and remains true today that the proper functioning of the Fund requires that all members should follow sound internal policies. By this I mean that the available economic resources of each member country should be fully deployed without greater demands being made on the resources that can reasonably be met.

We all have to steer our course between the twin monsters—inflation and deflation; it calls for courage from the helmsman and sometimes he needs to stop his ears, especially if he be a Finance Minister, against the blandishments of sirens.

During the past few years, as the Annual Report clearly brings out, it has been inflation which most of us see as the threat to economic and political stability and to international trade and cooperation.

Certainly in the United Kingdom our problem has been to prevent excessive demands on our resources. I think I may fairly claim that our recent efforts have not gone unrewarded.

The rise in consumer prices in the past six months has been only 2 per cent, and this despite a radical improvement in our balance of payments which has converted an annual deficit of about £100 million for 1955 into a surplus of well over £100 million for the first half of 1956.

At the same time, we have gained much useful experience of the efficacy of the various counterinflationary measures we have taken in the past two years.

The Report mentions the importance of monetary policy as a weapon for attacking inflation. This is undeniable. But we have learned, as have others, that, by itself, and even if accompanied by high taxation and budget surpluses, monetary policy may not be able to deal with all the problems of a buoyant economy.

Many countries in the last year or so have had experience of the impact of monetary discipline—generally toward dearer money. We could learn much from each other and consider whether there is not here a whole area of new problems which we could study together. In brief, do we need additional—and perhaps more selective—methods to control a boom.

For we must remember that governments today are pledged—and rightly pledged—to policies of full employment and a high level of economic activity. They cannot, therefore, push their fiscal and monetary policies to the point of outright deflation.

Stability and economic expansion, therefore, can be ensured only if neither wages and salaries on the one hand nor distributed profits on the other take too large a share of production.

Unless demands for increased incomes are limited to something less than the increase in productivity, there are no resources left to meet other demands—for more investment, or to increase financial reserves. This point becomes especially important at a time when increased personal spending competes for the same resources as are required for exports and for capital goods.

This is what happened in Britain last year, and it explains why both my predecessor Mr. Butler and I have had to supplement general monetary and fiscal policies with more discriminating measures, notably the control of hire purchase and especially in the field of what I believe are called consumer durables. I said earlier on that the proper functioning of the Fund can only be ensured if member countries have healthy economies. I might have added that in achieving healthy economies they must have continuous regard to the impact of their policies on other members. For, if there is one economic lesson we have learned in the past quarter of a century, if I may adapt an old epigram, it is this: that prosperity is indivisible. If members' policies are to strengthen their economies at the expense of their neighbors, problems will arise. Just as members having balance of payments deficits should take the necessary steps to correct the payments disequilibrium, so those in strong creditor positions should frame their external policies having regard to the effect of their strength on other, weaker, members.

Creditors have responsibilities as well as debtors and must be prepared to take steps to offset a persistent tendency to balance of payments surplus. In this connection, my colleague from the United States will forgive me if I say how much we admire the way in which his country has mitigated since the war the adverse effects on other members of the world dollar shortage. The most striking and, indeed, most important contribution by his Government to the solution of this problem has, of course, been the enormous flow of aid to the rest of the world.

The Report mentions that no less than one quarter of the supply of dollars made available to the rest of the world since 1950 has been provided by the U.S. Government. Without this aid, it is hardly an exaggeration to say that there could have been virtually no progress toward a system of freer trade and payments, and, indeed, the whole apparatus of financial cooperation might well have come to nothing.

We acknowledge, too, the U.S. Administration's efforts to promote liberal trade policies. Perhaps we might wish that more progress had been made in this direction. But we are not unmindful of what has, nevertheless, been done to facilitate the import of goods into the United States from the rest of the world.

The past 12 months have seen some important tariff reductions, and a valuable contribution to the simplification of Customs procedures.

During the last few years, we have experienced in Europe the emergence of a new pattern of creditor and debtor positions. As you will be aware, at the last meeting of the Council of Ministers of the Organisation for European Economic Co-operation, it was decided to set up a Working Party to examine the dangers of the widening of the debtor and creditor positions in the European Payments Union. When this examination has been completed, it should enable appropriate action, both joint and individual, to be taken at the right moment so as to reduce the effect of these dangers.

I believe the Fund has something to learn from this development, and I would like to suggest that in the future the Fund pay particular attention to the strength, as well as to the weakness, of members' external positions.

Broadly, the general policy of the United Kingdom remains unchanged, and we shall continue to take such steps as we can from time to time to liberalize our arrangements for trade and payments.

I would particularly like to refer to the recent measures taken by the United Kingdom to increase the volume of intra-European trade which has been freed from all restriction.

In his statement last year my predecessor expressed the hope that staff discussions might take place between the Fund and the OEEC. During the past 12 months, certain discussions have, in fact, taken place, and I trust that the foundation has now been laid for close cooperation between the Fund and the European Fund when the latter comes into existence.

Certain steps have also been taken to improve the liaison between the Fund staff and the Contracting Parties to the General Agreement on Tariffs and Trade. I hope that it will be possible to find ways and means of building upon this foundation.

In one respect the Fund has not developed as its founders expected—in recent years the use which members have made of its resources has tended to decline rather than to expand. Doubtless, we can look to the history of the Fund's operations for the explanation of this tendency. There was the period immediately after the inauguration of the Fund when the Fund's resources were used fairly freely by its members, including the United Kingdom. The practices of that period were, however, eroded in the years that followed as a result of a difference of opinion among members of the Fund as to the conditions under which drawings from the Fund should be made and also of the decision that countries receiving Marshall Aid should not be eligible for a drawing. The generous aid which the United States gave under the Marshall Plan was much greater than the support which the Fund could provide. But the result was that the Fund's resources were relatively little used.

There followed a third period in which the introduction of what has come to be known as the "Rooth Plan" made clear that the Fund stood ready to make its resources available to its members and thus play its full part in facilitating trade and payments. The introduction of this new approach coincided, however, with a period in which the gold and dollar reserves of many of the members were rising. Hence, as a result of this sequence of development through these 10 years, the use of the Fund's resources has come to be regarded by its members as something which is quite abnormal instead of the most natural way of meeting temporary requirements.

I am sure that Mr. Rooth was right to point to the importance, from the Fund point of view, of members regarding drawings as something much more akin to the use of their reserves—to be

drawn upon as needed and to be replenished when the need has passed.

It is almost tautological to stress that the Fund cannot play the fully integrated role which was cast for it as a world credit institution until its members are prepared to use it freely as an integral part of the credit facilities which make possible the healthy expansion of international trade. We ought not to be content with the role the Fund is playing until the use of its resources is regarded by members as being an entirely normal way of meeting short-term foreign exchange requirements. But if members are to regard the Fund facilities in this way, consideration may have to be given to the structure of Fund charges.

Later on at this Meeting I understand that we shall be invited to approve a Resolution[1] concerning the continuance of the existing scale of charges imposed on members purchasing currency from the Fund. While I see the reason for this, I should like to propose that, at some date in the not too distant future, a further study should be undertaken of the possibility of simplifying the somewhat complicated structure of Fund charges. It would be unfortunate if we came to regard the existing scale as unchallengeable or, indeed, to take it as axiomatic that a formal link should be maintained between the scale of Fund charges and the prevailing level of interest rates.

My Canadian colleague has made some interesting suggestions regarding the Executive Board. These are very far-reaching and, if accepted, would involve a significant change in the way in which the Fund operates. I consider that these proposals have great merit and they have our general support. I feel, however, that a detailed study of the question should be left to the new Executive Board and to the new Managing Director.

In conclusion, I should like to refer to the position of Managing Director. The Executive Board recently appointed Mr. Jacobsson,

[1] Resolution No. 11-8, page 143.

a distinguished compatriot of Mr. Rooth's, to succeed him as Managing Director on his retirement in October. I should like to extend to Mr. Jacobsson a warm welcome and to wish him all success in his new appointment.

But at this time it is Mr. Rooth's departure which we all have particularly in mind and I would like to express my sincere regret that this should be the last Annual Meeting at which we shall see Mr. Rooth as Managing Director. His service to the Fund during the past five years has been great, and his departure will be keenly felt not only by the staff and by the Executive Board but by all the Governors as well. On behalf of the United Kingdom Delegation, I should like to extend to him our sincere best wishes for the future.

Statement by the Governor for Turkey[1]

Zeyyat Mandalinci

After having carefully studied the Annual Report of the International Monetary Fund for 1956, we have listened with interest to the additional remarks of the distinguished Managing Director of the Fund, Mr. Rooth, to whom I wish to pay due tribute here for his able and fruitful services. Before starting my brief statement, I should like to express our thanks and appreciation to Mr. Rooth and his Deputy, Mr. Cochran, as well as to their competent collaborators in the Fund for their excellent work.

Both the Report before us and all we have heard confirm the fact that, during the past year, in spite of certain difficulties, there have been favorable developments generally in the fields of production, trade, and foreign exchange. We are convinced that international cooperation and international organizations which give concrete expression to such cooperation have been largely instrumental in

[1] Session No. 3, September 26, 1956.

bringing about this auspicious result. I sincerely believe that these extremely useful services of international organizations will continue to develop in the right direction and will become increasingly effective and fruitful.

As it has also been set forth in the Articles of the Fund, the gradual suppression of exchange restrictions and complete liberalization of trade is the ultimate goal which all member countries strive to achieve. However, it must also be admitted that the elimination of such restrictions and full liberalization of trade and payments is only possible for a country which has reached a certain higher level of development and which has, at least partially, completed its basic economic equipment. It is obvious that as long as severe economic inequality between developed and less developed countries exists, it would not be possible to obtain the expected results from over-all liberalization, so the simultaneous attainment of common goal will be belated.

Consequently, we believe that it is essential to help less developed countries in their economic development so that they can eliminate these restrictions in a very short time, not only for their own benefit but also for the purpose of achieving a stable world trade. Thus, it is necessary that we should cooperate and endeavor to create conditions which would assure the free flow of private capital to less developed countries in addition to mutual assistance between governments.

If the countries requiring foreign capital take the necessary steps to prepare the ground and the conditions which would satisfy such capital, it would certainly help them to achieve their goals rapidly. But it must also be realized that the efforts alone of the countries which would benefit from the productivity of such capital are not sufficient to produce the desired results. The countries which are in a position to supply the capital should also work in this direction and should, in particular, take measures to promote and facilitate movements of capital.

I wish to point out here that the Turkish Government has adopted effective measures in this field and, by a special law enacted in 1954, has accepted fundamental provisions which would satisfy foreign capital in every respect. This law, which is fully in effect and satisfactorily implemented at the present moment, provides and guarantees that all profits accruing to foreign investments in Turkey may be freely transferred abroad or may be added to the original outlay. It also provides that any foreign capital invested in Turkey may be exported from the country whenever it is so desired.

Before concluding my remarks, I wish to add that in this field which is so closely connected with the suppression of exchange restrictions and liberalization of trade and payments any suggestions or any efforts to be made by the International Monetary Fund would always be welcome and highly appreciated by my country.

Statement by the Governor for India[1]

B. Rama Rau

I wish to associate myself on this occasion with the tributes that have been paid to Mr. Ivar Rooth by the earlier speakers. Mr. Rooth took charge of the Fund's management at a time when the organization was just finding its feet. Since then, the organization has, under his guidance, developed in several directions. He will be long remembered for the initiation of a more flexible policy for the use of the Fund's resources. I would also like personally to thank him for the keen interest he has always taken in the problems of underdeveloped countries, many of which, including my own, he found time to visit in the midst of his multifarious and arduous duties.

[1] Session No. 3, September 26, 1956.

The Fund's Annual Report, presented to us by Mr. Rooth, has, as usual, given us an able analysis of the international payments situation and an excellent survey of the developments in the economic and monetary fields. It records the progress achieved by the Fund in regard to the establishment of a multilateral system of payment which has always been the special concern of the Fund. It emphasizes the importance of achieving and maintaining economic stability through monetary and fiscal methods.

In regard to India, the Report makes an appreciative reference to the success of our first Five Year Plan, which has been implemented without any inflation during the period as a whole, and cites this as an example of the manner in which an underdeveloped country, not highly dependent on foreign trade, can finance fairly large development expenditures without inflationary pressures. We have now launched the second Five Year Plan, which is more comprehensive and more ambitious and which has the objective of raising the national income by 25 per cent compared with an estimated 18 per cent increase during the first Plan.

As I stated at the Bank meeting yesterday to almost the same audience, in spite of the rather spectacular achievement of development on a large scale without inflation during the last five years, we are fully alive to the inflationary possibilities of the second Five Year Plan. Apart from a cautious credit policy, which was maintained throughout the last Plan period, the absence of inflationary pressures was due, as the Report has pointed out, to the emphasis given to increasing production of food and to favorable weather conditions. There has already been during the present year some upward movement in prices. I will, therefore, briefly describe the measures we have taken to deal with the inflationary situation, if it should arise. Before doing so, I should like to emphasize one or two points.

Critics of the Plan, both Indian and foreign, have drawn special attention to deficit financing. The first point I wish to explain is that, in the conditions prevailing in India, the very process of de-

velopment has inflationary tendencies, even if the larger expenditure is financed by means of taxation or borrowing. Subscriptions to loans and new taxes (if levied on the principle of ability to pay) primarily affect the purchasing power of the more prosperous section of the people, who are already adequately fed and clothed. When the proceeds of these taxes and loans are utilized for development, there is a transfer of purchasing power from these sections to the comparatively poor classes, who find greater opportunities of employment on account of the development schemes and whose purchasing power is consequently increased.

A large development program, even if it is financed by taxation and borrowing, thus tends to increase the demand for food and other articles of consumption and, therefore, tends to raise the prices of articles unless there is simultaneously an adequate increase in production. I do not, of course, dispute that deficit financing is much worse than taxation. What I wish to emphasize is that we must be prepared for a rise in the price of food and other essential articles of consumption, since the whole subject of development is to raise the standard of living of the poorer classes. We are, therefore, devising appropriate monetary fiscal and administrative measures to insure that the inflationary situation does not get out of control. We are exercising the utmost vigilance and we would not hesitate, if absolutely necessary, to make appropriate adjustments in the Plan. The Plan is flexible and there will be a periodical review of the economic results and consequences.

I wish now to describe briefly the measures we are taking to avoid the development of any undue inflationary pressure. The first impact of any such pressure will be, as I have explained, on food and clothing, and our main efforts will be to insure an adequate supply of these articles.

Our difficulties will be mainly in the next two or three years. Some of the colossal irrigation and power schemes which were started more than five years ago will be completed within the next

few years. Some of these are already partly in operation. Once they are all in full operation, our food problems will present no difficulties.

The Government has already revised the second Five Year Plan with a view to giving concentrated attention to the increase of domestic production of food articles. Since some of the measures designed for this purpose cannot, of course, produce immediate results, the Government is accumulating buffer stocks of foodgrains, which could be released in places where prices tend to rise. We have negotiated agreements with Burma for the import of 2 million tons of rice and with the United States for the import of 3.5 million tons of wheat and 200,000 tons of rice under Public Law 480. I should like to express our grateful appreciation of the very generous terms on which the U.S. Government has agreed to provide the foodgrains. This purchase will not impose any strain on our foreign exchange resources. In the meanwhile, the sale of these foodgrains will operate as a disinflationary measure.

The recent rise in the prices of foodgrains and cloth has been partly due to speculative hoarding of stocks by traders. By the exercise of the powers of control vested in the Reserve Bank, a selective credit squeeze has been effectively applied in regard to bank credits to traders who are hoarding grain. For instance, advances on rice, which were two and one half times more than in the previous year, have been reduced from 265 million rupees to less than 90 million rupees.

The Plan provides for a heavy program of taxation and borrowing, and an intensive effort is being made for the mobilization of small savings. I may add that the subscriptions to the Government loans which were recently issued have appreciably exceeded the Plan estimates which were regarded as rather optimistic by some critics.

I have given these details because there is a feeling that the success of the first Five Year Plan might make us complacent as

regards the inflationary possibilities of the second Plan. As the Fund Report has observed, there is a significant gap between planned expenditures and the resources likely to be available. We shall have to depend on foreign assistance to fill this gap.

As is well known, most countries, including the United States, have depended on foreign assistance or capital at some stage in their economic evolution. If foreign aid is not forthcoming in a reasonable measure, we shall have to adjust our expenditure accordingly.

Finally, I wish to offer a few remarks on one or two aspects of the Fund's policy. We have drawn the attention of the Fund on previous occasions also to what we considered to be an onerous scale of charges on the use of its resources. It still continues to be our belief that the scale of Fund charges should be determined independently of any short-term banking rates in particular countries which have to vary according to the local needs and requirements of these particular economies. The Fund provides through its resources not short-term accommodation *per se* but reserves of international currency to be used by member countries for maintaining a high level of international trade. This is an activity which confers a benefit on a much wider area than the "borrowing" country and it is, therefore, our belief that the scale of charges appropriate to this purpose should be clearly differentiated from the normal short-term lending rates for bank accommodation on a commercial basis.

We also wish to reiterate the suggestion made by us last year that the prescription of currencies acceptable to the Fund at the time of repurchase is a matter which, in our view, needs to be examined with a view to rendering the use of the Fund's resources more attractive to members. There may be many Fund members in need of assistance who may not, however, wish to borrow because of the obligation to repay soft currency drawings by hard currency repurchases.

Statement by the Alternate Governor of the Fund for Chile[1]

Felipe Herrera

It gives me great pleasure to express on behalf of my country our congratulations on the achievements of the International Monetary Fund during the period 1955-56, as stated in the Annual Report, and in the very interesting address of the Managing Director. At the same time, I want to express our deep regret for the completion of his term of office of that sincere friend, whose human understanding and broad vision are known to us all, Mr. Ivar Rooth. He can be sure that his efforts in favor of international financial cooperation and his continuous interest in the specific problems of Chile have led to better appreciation of the technical and moral influence of the Fund in our country.

Due to a number of circumstances, where political and sociological factors have dominated, Chile has encountered serious problems of a financial nature which, although present over most of the last decades, have become increasingly acute since the last World War. Our difficulties can be briefly summarized as follows: balance of payments difficulties, as a consequence of the unstable situation of Chile's basic export products, copper and nitrates; rapid industrial development without the similar development of agriculture and transportation; a large increase in population without keeping pace with an appropriate rate of investment; a widening of the state responsibilities, especially in the fields of development and social security, without adequate fiscal and administrative adjustments; and the permanent pressures arising from the wage price spiral.

A very large contribution toward a better understanding of the Chilean situation has been provided by various missions and reports of the Fund. They have contributed to clarify the thoughts not only of technicians and leading circles but of public opinion

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as a whole, which, in turn, has given very valuable support to our monetary authorities and particularly to the Central Bank of Chile in the difficult task in which they have been engaged.

Favorable developments during the last few months have led us to think that the inflationary pressures in Chile are being brought under control. The measures applied are the old recipes to which you have to return in one form or another if stability is to be achieved: a balance in the fiscal budget, a restrictive monetary and credit policy, a better control over the readjustment of wages and salaries and an overhaul of our exchange system.

In the last field, I would like to point out that, after a long and not very happy experience of quantitative control through exchange budgets, import licenses and multiple rates, a more flexible system has been adopted with the intention of putting an end to inefficient practices. The new system, through a realistic uniform exchange rate, advance deposits in domestic currency for imports, a well-balanced list of permitted imports and a strict control of credit, has relieved much of the pressure of import demand, associated with its inflationary environment.

The establishment of an Exchange Stabilization Fund was essential for the material and psychological success of that reform. Resources were provided through the valuable help of the Fund. In March of the present year, the Fund entered into a stand-by arrangement with Chile equivalent to 70 per cent of Chile's quota and these resources were increased by additional credits negotiated with the U.S. Treasury and a group of private banks. The exchange reform was assisted by favorable foreign trade conditions and by an improvement of our internal financial position, in such a way that not only has Chile not made use of the US$75 million of the Stabilization Fund, but, on the contrary, for the first time in many years, Chile has witnessed an important increase in her foreign exchange reserves.

The new exchange system, however, has encountered difficulties in its application to those areas where we have bilateral com-

mercial and payments agreements. The fact that every importer can freely choose the supplier country and the currency for making his payment has led, in some cases, to an undue accumulation of balances in favor of Chile in its bilateral accounts and, in other cases, a tendency toward a depreciation of currencies. The latter has created problems for those exporters whose trade is mostly directed to markets where we have bilateral agreements. This situation has not only created marketing problems but has compelled the Central Bank to intervene in the exchange market to support these weaker currencies. Chile's commercial policy is now being orientated to remove, as rapidly and progressively as feasible, all bilateral practices. In this aspiration and, as a transitory step, we are considering the possibilities of establishing, with those South American countries with which Chile has traditionally traded through bilateral arrangements, the practicality of a system for multilateral payments.

The policy of financial stabilization has been criticized as being a check to Chile's economic development with the same arguments familiar to central bankers the world over. These criticisms emphasize the dangers of deflation or stagnation in production as a result of restrictive monetary and credit policies. In Chile, during recent months, a weakening can be observed in those activities which previously have developed intensively through inflation, especially through the continuous and widespread expectation of price increases (e.g., building activity). It is not an easy matter to coordinate financial measures with other aspects of economic policy. Practice has taught us that, while the management of monetary and exchange policies can be implemented, it is not so flexible to act in the fields of production, commercial, fiscal, social and wage policies; this cannot be overlooked in any anti-inflationary action. Deficiencies of administrative and fiscal systems make coordinated action very difficult in new countries, especially when those systems are freely exposed to all sorts of political and social pressures.

We understand the urgency for complementing our financial policy with a development policy facilitating the readjustment of the productive system distorted by many years of monetary debasement. We believe that stability itself and the new exchange system will contribute to the creation of conditions for private and public investment, domestic and foreign. We also trust that the execution of an Agriculture and Transportation Development Program, which is presently under consideration by the International Bank for Reconstruction and Development, will tend to improve two postponed sectors of our economy.

The difficult road toward economic stability, the only solid foundation for better living conditions, has been undertaken by our developing country after a long and painful inflationary experience. That circumstance makes us think that, despite all immediate difficulties, Chile will be successful in the completion of her present objectives.

STATEMENT BY THE GOVERNOR FOR THE NETHERLANDS[1]

M. W. Holtrop

I am happy to join my fellow Governors in thanking Mr. Rooth for his lucid statement and in complimenting the Executive Board and staff on this Eleventh Annual Report. The Report gains in quality every year. The volume before us contains an excellent survey of recent developments in the field of international payments. It is also a true mine of information on all problems connected with the Fund's sphere of action and the task it has to fulfill.

The first five chapters of the Report which contain a comprehensive description of economic developments from May 1955 through April 1956 are written in an optimistic tone. Thanks to

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the annual consultations, contacts between the staff and most of the member countries are becoming closer and the Fund's conclusions are gaining in authority. Exchange stabilization, liberalization and multilateralization have made considerable progress during the past year.

On the other hand, the Report does not conceal that there are also less satisfactory elements in the situation. Too many members are still living in the transitional period, and the possibility of a spectacular change in this respect seems rather remote. A matter of still greater concern lies in the fact that in a number of countries exchange stability is seriously threatened by inflationary pressures. There certainly is a growing awareness of the necessity to counteract such pressures. In many countries, the general public is showing a growing uneasiness about the slowly rising cost of living, i.e., the slowly declining purchasing power of their monetary unit. But, in too many cases, this uneasiness is not yet sufficiently able to express itself in effective measures.

Chapter VII of the Report deals with the use of the Fund's resources. Nobody can say that that use has been extensive of late. This is the more remarkable, because, in recent years, the Fund made new, easier rules for drawings, set forth in detail in last year's Annual Report.

This fact has made people feel inclined to raise the question whether the Fund has been sufficiently successful in fulfilling its tasks. There is no doubt that one of the Fund's main duties is that of educating its members toward an optimum monetary cooperation. It is the very first of the purposes enumerated in Article I of its Articles of Agreement. If this task should be fulfilled, all other purposes would be attained almost automatically. Very rightly, the Executive Board and management felt that there must be a connection between this educational task and the Fund's fifth purpose, the privilege granted to members of using the Fund's resources. But how to bring this connection about?

There are several methods of education. The old-fashioned one is to be severe. If you are not good, you certainly will not get anything. If you behave, you are not yet entitled to anything, but at least there is a chance you will be recompensed.

The part of this kind of educator is the same as the part of the true friend in an old Dutch nursery rhyme written by a Treasurer General of Holland at the end of the 18th century. This true friend must be "a friend who demonstrates my errors, constantly blames and never spares . . . ."

The Fund, although it may not have known about our grandparents' nursery rhymes, early in its career, started from the same point of view. Member countries which had considered the Fund as a secondary line of reserve on which they could draw, subject to the provisions of Article V, found themselves blamed for having unrealistic rates of exchange, for tolerating latent inflation, or for failing to make an effórt to overcome postwar difficulties on their own strength. The Fund stressed the fact that its other purposes should come first. In a way, the Fund was successful, as shown by the progress reported during the last seven years.

Perhaps the Fund was even too successful in discouraging its members from using the Fund's resources. It seemed to be faced with a new problem: are our resources to play any part at all in the world's monetary policy?

The Fund then adopted another more modern method of education. "Come hither, come hither, come hither", it said to its members. "Even if my rules do seem severe, you will find that in practice I am not as bad as I look. It is true that certain rules have to be observed, but come to us anyway, and we shall find a way of adjusting our rules to your problems." So the rules were relaxed, and the Fund waited for its pupils to come forward. An amazing thing happened: almost nobody came. It is true that neither changes of habit nor changes of policy are made overnight. The Fund has stressed the point that practically auto-

matic drawings will be the recompensation for the withdrawing of restrictions, for the diminishing of discrimination, for the introduction or maintenance of convertibility, or for the starting of programs of monetary stabilization. Such measures need a favorable political climate, initiative, patience and endurance. It may well be that the relaxation of the Fund's operational policy will have quite different results in the near future, and that various members may desire to draw on their secondary line of reserve.

In that case, another problem may arise. How can we prevent the possibility that the Fund's resources will strengthen the inflationary pressures which are already resurging in various countries? It is by no means an imaginary danger that a country, thanks to a drawing, would no longer deem it indispensable to restrain its internal inflation, thus eventually exporting such inflation to the countries where it will spend the Fund's resources.

It is not my intention to advise the Fund to go back on its new approach and return to its old, stern attitude of the parent who knows best and requires strict obedience without much hope of recompense. Members should know that they can count on a secondary line of reserve and, therefore, some automatism for drawings must be allowed, and the Fund's present scheme seems reasonable enough. But it seems to me that we must yet make sure of one particular thing: that the Fund's resources should not be used to spread inflation.

As Secretary Humphrey has so rightly said in his opening address, we Governors of the International Monetary Fund have a very special responsibility to the people of our countries in being the guardians of the value of their money. It is not a simple task to properly fulfill this trusteeship. In periods of booming business conditions, of rising prosperity and of full and even overfull employment, as we now experience in the major industrial countries, this trusteeship demands from us that we follow stern fiscal and monetary policies. These policies are seldom popular among those who fail to see the dangers that threaten the stability of our econ-

omies if inflationary tendencies should not be curbed. But even the strictest possible control of internal inflationary tendencies may not be enough. Especially we, in the smaller countries like the Netherlands, are very conscious of the fact that in a worldwide system of fixed rates of exchange, as foreseen by the Articles of Agreement of the Fund, we are practically defenseless against the inflationary pressures that may be exerted upon us from abroad in case our partners in that system should fail to control the inflationary pressures in their countries. Our only support in this predicament has to come from the Fund. It is the Fund that holds a trusteeship for all of us to defend the value of our money against too insidious pressures from abroad. Not only, as was perhaps most thought of by the founding fathers, against deflationary pressures in times of depression, but also against inflationary pressures in times of prosperity. It is for this reason that I think we are entitled to ask the Fund to see to it that, while making the Fund's resources accessible to its members, it should yet not fail in this trusteeship and, consequently, should not relax in its insistence that countries which want to make use of the Fund's resources beyond their semiautomatic drawing rights should follow proper fiscal and monetary policies at home.

It is with a great deal of interest that I have listened to the suggestion of the Governor for Canada that consideration should be given to the possibility of arranging the work of the Executive Board in such a way that the Executive Directors should not be forced to spend practically all of the time in Washington, thus making it possible that officials who hold responsible positions in their home country should yet be able to be an Executive Director of the Fund. I do think that it would indeed be useful to study this suggestion thoroughly. It does, however, occur to me that the suggestion might be difficult to follow for those Executive Directors who represent a number of different countries, countries that also might prefer to be represented by an Executive Director who looks upon himself rather as an international civil servant rather than an official of his home country. Also, we must not

forget that very important decisions may have to be made on short notice, thus making it impossible to properly consider them in a Board that would be completely set up on the basis of the suggestion of the Governor for Canada.

I would, therefore, like to suggest that also consideration be given to the possibility of so arranging the work of the Board as to make it easier for those countries who would prefer the Canadian system to do so without condemning the Executive Directors of the countries preferring the existing arrangements to spend their time in Washington in alternating periods of overwork and idleness.

I do not want to end without saying a word of a most hearty farewell to my old friend of BIS days, Mr. Ivar Rooth, who has given so much of his energy, his sympathetic understanding and his good will to this work in the Fund. It must be a very great satisfaction to him to be allowed to hand over to his friend and compatriot, Mr. Per Jacobsson, whom I wish every success in his new heavy responsibilities.

Statement by the Governor for the Union of South Africa[1]

Jozua Francois Naude

Like other fellow Governors, I have noted with satisfaction from the Report submitted by the Managing Director that there has been continued improvement in the international payments situation during the past year.

South Africa has always been opposed to bilateral practices and we are particularly gratified that the Fund's efforts to bring about a reduction of bilateral arrangements have met with some success. Nevertheless, exchange and import restrictions and multi-

[1] Session No. 3, September 26, 1956.

ple exchange rates are still widely prevalent and I venture to ask whether the time has not come for the Fund to adopt a somewhat stricter attitude toward the retention of these practices.

I wonder, too, whether a greater measure of cooperation is not desirable between the Fund and the Contracting Parties to the General Agreement on Tariffs and Trade. I have heard it said that certain members are evading their obligations under the General Agreement on Tariffs and Trade by resorting to the laxer provisions of the Fund. I do not know whether there is truth in this statement, but I think it most important that the Fund should, so far as possible, avoid giving just cause for such a reproach.

It is somewhat disturbing to note from the Report that 47 members continue to apply restrictions under Article XIV. In some of these cases, as I have hinted, it may be possible for the countries concerned to take more positive action to eliminate or relax restrictions, but I recognize that, in most cases, balance of payments difficulties render the retention of some restrictions unavoidable. It is certainly not reassuring that so many members still have to apply restrictions during a period of prosperity.

Moreover, the balance of payments between the non-dollar world and the United States is still largely dependent on U.S. Government expenditures abroad. In fact, the sums provided to the rest of the world by the U.S. Government by way of grants alone exceed the increase in the gold and dollar holdings of other countries by $200 million.

The information given in the Report in regard to the position of the gold producing countries gives even less cause for satisfaction. A considerable number of gold mines had to close down and, had it not been for the substantial increase in the output in South Africa, total gold production, outside the USSR, would have shown a substantial decline. The gold production, including South African output, increased by only $49 million during the year. This is certainly a very modest figure as compared with the

urgent need for a substantial increase of reserves in most of the non-dollar countries.

The precariousness of the position is further stressed by the fact that the increase in the South African gold output was largely fortuitous. In the first place, the exploitation of uranium as a by-product of the gold mining industry made it possible to continue gold production in a number of mines which would otherwise have been forced to close down. Secondly, the falling production of the older mines was offset by the increased production of the new gold fields.

The growing production of the new South African gold mines may, for a time, cloak the seriousness of the position, but the issues raised by my predecessors at previous Meetings of the Fund cannot be evaded indefinitely without serious detriment to the whole fabric of the international monetary system.

It would be presumptuous for me to attempt to improve on the comprehensive case, so ably put by my predecessors as well as by Governors of other member countries, and I feel sure that my fellow Governors would not wish me to weary them with a repetition of all the arguments previously advanced in support of a rise in the price of gold. But we feel so strongly about this matter, both from the point of view of South Africa's interests and the interests of the world at large, that I would be neglecting my duty if I did not again emphasize the importance of the gold price question.

There appears to be an impression in some quarters that, because our gold production is expected to increase, the problem is not an urgent one for South Africa. This is entirely erroneous. It is true that total production is likely to show an increase in 1957, but this is solely due to the expected large increase in the output of the new mines. The output of these new mines may also be sufficient to sustain total production, though probably at a slightly lower level, after 1957. Nevertheless, the fact remains that the disparity between costs and the fixed price of gold has

compelled the mines to raise the grade of ore mined. Consequently, large bodies of ore in both the old and the new mines remained unmined and many millions of ounces of gold have thereby been permanently lost to South Africa and to the world at large. The position is further aggravated by the fact that a number of mines are approaching the stage where, owing to the absence of higher grade ores, they can no longer preserve a reasonable margin of profit by raising the grade of ore to be mined. An increase in the price of gold is, therefore, essential to prevent the premature closing down of these mines.

Added to the actual loss in the volume of gold production is the loss that South Africa has suffered, and is still suffering, in respect to its current exchange earnings as a result of the reduction of the purchasing power of gold.

In the long run, South Africa, and the other gold producing countries, cannot continue to bear a disproportionate burden in maintaining gold production at a level necessary for a stable monetary system.

In our view, the opposition to a change in the price of gold stems, perhaps subconsciously, from the basically sound assumption that, in order to serve as a relatively stable measure of value, the price of gold should remain fixed indefinitely. This assumption, admittedly, had a large measure of validity in the days of the orthodox gold standard when every citizen had the right to convert his paper money into gold and gold itself was allowed to exercise control over the volume of paper money and, therefore, over the price level of commodities. But with the suspension of internal gold convertibility, the automatic brake on the issue of paper money was removed. Consequently, gold no longer, even approximately, determines the purchasing power of paper money. In fact, we have arrived at the opposite extreme: instead of gold controlling the value of paper money, its own value or purchasing power is, under the present setup, expected to conform to that of paper currencies.

It is questionable whether a sound and stable monetary system could be built up on this basis, but, assuming that the world is not prepared to submit to the full discipline of the gold standard, it would have to face an adjustment in the price of gold after a severe decline in the purchasing power of paper money in order to counteract the effects of such a decline on international liquidity. The founders of the Fund wisely recognized this possibility and made express provision in the Fund's Articles for a uniform change in the par values of the currencies of all members. Our submission is that such a readjustment is overdue in view of the substantial changes in the purchasing power of all currencies which have taken place since the prewar period.

It is not our desire to embarrass governments by provoking a public discussion on the price of gold at this stage. I do hope, however, that the monetary authorities in all member countries will give serious thought to the question whether the change in the role assigned to gold under modern monetary management does not call for a new approach to the gold price question.

Statement by the Temporary Alternate Governor for the United States[1]

W. Randolph Burgess

Let me begin my remarks by paying tribute to Ivar Rooth, who is completing five years of fine service to the Fund. During his term of leadership, the Fund has grown in prestige and influence. More than ever it is looked to for support and guidance by the member countries.

There seem to me three important elements in the progress which the Fund has made. The first is the annual consultations with members respecting their exchange restrictions. Quietly and effectively the Fund has worked with its member countries for

[1] Session No. 3, September 26, 1956.

the reduction of government barriers to financial and trade transactions. As individual countries continue to gain reserves, further progress should be anticipated.

The second element in the Fund's progress is the providing, more generally, of financial advice to the member countries. For many reasons, member countries increasingly call on the Fund for on-the-spot analysis and recommendations. They know that Fund missions will be sent promptly and quietly and that the advice will be impartial and expert.

The third important development relates to policy and practice in the use of the Fund's resources. As a result of vigorous discussion and added experience, there is now widespread understanding and agreement along the lines set forth in last year's Annual Report.

As to events of the past year, I should like to emphasize a point made by Secretary Humphrey at the opening session. Most of our countries are encountering the problems of prosperity. With large increases in production and employment, and with investment running ahead of savings, there is scarcely a country in which inflationary pressures are not strong.

The most encouraging feature is that the dangers of inflation have been recognized, and a continuous battle for financial stability has been waged, with considerable success, in nearly all countries of the free world.

A second gratifying point, noted in this and other Fund Annual Reports, is that monetary and fiscal policy has superseded direct controls as the main reliance of governments and central banks.

In connection with this second point, we may note with interest the comment on page 67 of the Report that, during the past year, more attention has been turned to budgetary measures to fortify the effects of monetary policy. Monetary policy alone cannot be

expected to hold the line if government spending is feeding the fires of inflation.

We in the United States are particularly sensitive to this broad problem. Employment has reached the highest point in our history; unemployment is at a minimum. Production and spending and personal incomes are at levels which, only a few years ago, would have been thought unrealizable. New investment continues to be made and planned on a massive scale. This all means that inflationary pressures are unrelenting and powerful.

It is, therefore, not surprising that some critics insist that monetary controls are too severe, while others are pointing to a rise in the cost of living as evidence that inflation is slipping out from under restraint. What has to be said in reply to the critics on both sides is that the search for balance is continuous but, by the very nature of things, cannot be 100 per cent successful. There are dangers on both sides. The danger of inflation is too well known to this group to need definition. There are dangers on the other side as well. Restraints must not be applied with such a heavy hand that they imperil progress. So, along with others, we walk this narrow path—not without care and anxiety—but with the assurance that this is the proved path to national growth and well-being.

It has been encouraging to observe the increased public understanding of the value of sound fiscal and monetary measures, compared with the restrictive and artificial effects of direct government intervention in establishing and maintaining a prosperous economy. We are, however, learning every day how much more needs to be done to increase the public support which those of us assembled here must have if we are to discharge successfully the trusteeship to which Secretary Humphrey referred at the opening session—our trusteeship to the average citizen in preserving the value of his wages and salary and his savings.

A good many suggestions have been made this morning. I wish one could pick up many of them, but I do think I should

respond very briefly to the suggestion from my friend from South Africa. We listened with interest to his arguments. I congratulate the representatives of that country in always coming to us with a fresh presentation of the case. While we are sympathetic with his specific problem, I am afraid we find it necessary to state once more that we continue to be opposed to an increase in the official dollar price which we pay for gold. It would conflict with the great objective of our monetary policy, which is to maintain a sound and stable currency, both domestically and in international commerce.

We are also enormously interested in the suggestion of the Delegate from Canada relating to the way in which the operations of the Executive Board might be altered. I am sure we will all agree on the principle that we must bring to bear on the work of the Monetary Fund the very best wisdom and practical judgment that we have in all of our countries, and I agree wholeheartedly with the suggestions made by the representative of the United Kingdom that the place to work these out is in the new Board and under the leadership of the new Managing Director, which will have in mind all of the complications and difficulties which arise when you consider the special problems faced by one or another group of countries.

I cannot conclude these remarks without a word on behalf of the U.S. Delegation to welcome to our midst and to the leadership of the Fund in the future our old friend, Per Jacobsson. He has had a uniquely distinguished career and has established a position of great personal prestige and influence in the economic and monetary field. We have all enjoyed, over the years, his vigor and his good spirits. It is gratifying that our good friend, Ivar Rooth, who leaves us after a distinguished career and service to the Fund, will be succeeded by his old friend and compatriot, Per Jacobsson, who will, I am sure, continue to provide the Fund with the devoted and able leadership from which it has benefitted under Ivar Rooth.

Statement by the Alternate Governor for the Federal Republic of Germany[1]

Hans Karl von Mangoldt-Reiboldt

I want to add my voice to those of the speakers before me who have paid tribute to the excellent Annual Report which the Executive Directors have laid before us, as well as to Mr. Rooth's introductory analysis of where the Fund stands just now. I think it particularly fitting that this year, when the Fund is entering into the second decade of its existence, we take a rather longer look both backward at the Fund's past performance and forward to its future tasks. Fortunately, Mr. Rooth and the Fund's staff have provided us for this session with a special publication[2] on the evolution of the Fund during the first 10 years of its life which considerably facilitates our stocktaking exercise.

Those who think that one can measure the usefulness of an international monetary institution mainly by looking at its balance sheet and its money turnover certainly have reason to be somewhat disappointed by the Fund's past experiences and performance. But its experience in this particular field, of course, to a large extent reflects merely the fact that one of the functions for which the Fund was intended, namely, to stand by as a sort of international emergency brigade for a general and world-wide disturbance in the payments picture, has not had to be called upon as such in the last four or five years, since the international economic situation, and especially the dollar situation, has, by and large, developed satisfactorily—some individual setbacks and tensions notwithstanding.

We should rather, I think, pray that the Fund will not have to be called upon too much for this particular purpose in the future, too. We would, of course, be much happier if circumstances allowed the Fund at an early date to use its financial resources

[1] Session No. 3, September 26, 1956.

[2] *The First Ten Years of the International Monetary Fund.*

for its other functions, such as supporting a general move toward convertibility. I think, moreover, that the rather favorable overall situation should give to the Fund all the more freedom and scope to concentrate its efforts on particular and individual problems and cases. It may well be, at least for the near future, that this is one of the most promising tasks which the Fund can usefully pursue.

I do not think that we need a great many new resolutions and decisions concerning the abstract principles of policy for the Fund. Its policies, both as concerns the use of its resources and its attitudes toward the various forms of exchange practices restrictions, have been well developed over the last few years and seem to me to be flexible enough to take care of most situations that are likely to arise in the near future. In this connection, we have to pay special tribute and our sincere thanks to our outgoing Managing Director, Mr. Ivar Rooth, who has contributed so much from the very beginning of his term of office to the development of these policies in the way of liberalizing access to the Fund's resources and, at the same time, interpreting and tightening the criteria and standards of behavior in accordance with the general goals of the Fund. It is a big step from the Fund as it looked five years ago to the Fund as we now see it, ready and well equipped to take over broader responsibilities. Any further development must, in my opinion, lie mainly in an energetic, resourceful and consistent application of the already existing policy principles to individual cases and situations as they arise.

I am also inclined to think that we already have in the Fund, and especially in its Executive Board, a useful forum for consultation and for the coordination of monetary and exchange policies, a machinery which could also cope with critical situations if and when they emerge.

There may be further scope for streamlining or otherwise improving the existing machinery along the lines pointed out this morning by our Canadiàn fellow Governor. Such a policy could,

and should, I think, be developed in the practical work of the Fund and need not necessarily be set in hard and fast rules beforehand.

It has also been a very useful function of the Fund throughout the past years to give technical advice and to make information on the experiences of the various countries in the field of monetary and exchange policies readily available to all the other countries. In so doing, the Fund has both provided for a better coordination among the member countries and speeded up progress all around. Up to now, this has been done mainly by working in and with a rather restricted circle of officials and technical experts in the member countries.

It might perhaps be useful to give greater prominence and more publicity to the Fund's efforts at coordinating national monetary and exchange policies in this and other ways. After all, a large part of the Fund's work consists in an effort at persuasion. The Fund can, and does, set the common goals and standards for all of us. It can point out from the large fund of its experience the best possible ways to reach these goals or to deal with a situation. But the actual measures themselves have always to be taken at the national level by the member countries themselves. Therefore, the effective influence of the Fund will depend to a large extent on how far it is able to persuade the leading men in the countries concerned of the soundness of its advice and make the public at large understand and approve the general goals of the Fund. It is the practical response of member countries and not some abstract rules and principles, be they as perfect as possible, which really decides the usefulness and the success of the Fund.

There is at present one field where there is particular scope for such an effort at persuasion by the Fund. The Annual Report and Mr. Rooth's introductory statement quite rightly stressed the great progress that has been made in the last two years in the abolition of restrictions, discrimination and bilateralism. But we

all know—as Mr. Rooth again forcefully pointed out last Monday—that this hard won progress can be endangered by the continuance of creeping inflation in many parts of the world. I do not want here to dwell on the inherent dangers of such inflations for the general well-being of the countries concerned. This has been done very convincingly in *The First Ten Years of the International Monetary Fund.* Also, I do not want to describe in any detail the various measures which we in Germany have taken, especially during the last 12 months, to combat any inflationary dangers in order to maintain the stability of our currency. But I do want here to stress particularly how much the inflationary tendencies and pressures now prevalent in many countries tend in the long run to have disruptive effects on the international payments system. Such a system can function—without recourse to restrictions and abnormal exchange practices—only if everybody keeps in step. This seems to me to be very difficult when inflationary tendencies create all sorts of distortions in prices and demand levels. The road of inflation is too slippery to allow a whole group to keep in step. Just now we are having some trouble in Europe in this respect and we are trying to coordinate our views on the best ways to solve our problems. Surely it will also be a concern of the Fund to watch very carefully for any dangers in its own world-wide field of interest arising out of these various inflationary tendencies and imbalances and to bring its influence to bear in time.

Let me conclude by saying that we in Germany believe in monetary cooperation and coordination; that we are prepared to do our part in this respect, in our own and in the common interest; and, finally, that we are convinced that the Fund is an important instrument of such coordination and harmonious relations.

We also want to join in the hearty welcome which was given by our fellow Governors to Mr. Per Jacobsson. We wish him every success for the important task he is taking upon himself.

Statement by the Governor for Japan[1]

Hisato Ichimada

I wish, first of all, to express to Mr. Rooth our warm appreciation for his distinguished services to the Fund during the past five years. Among others, I must pay tribute to his valuable contributions in the promotion of normal international financial relations and in the liberal use of the Fund's resources to meet temporary balance of payments difficulties.

As stated in the Annual Report, the trade and payments situation of the world has been making a steady improvement since the Annual Meeting at Istanbul. This, of course, is due to the untiring efforts of the member countries to effect economic stabilization as well as to the constant cooperative and constructive efforts of the Fund.

Such stabilization and improvement are, generally speaking, more noticeable in the industrialized countries. One of the prerequisites to the achievement of the Fund's task is further improvement and stabilization of the external economic position of the less developed member countries. The cooperation of other member countries, especially of those with a more developed economy, is needed to reduce any obstacles to international trade which hamper the increase in the export trade of the less developed countries. In some cases, financial and technical assistance from the outside will greatly assist the economic development of those countries by helping to diversify the products of their endowed natural resources.

It is an honor for my country to receive the comment of the Chairman at the opening session that my country has demonstrated the value of a firm monetary policy designed to stabilize international payments.

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Japan is a country which must live by international trade and services. It is, therefore, imperative for my country to keep up its policy of sound money and/or sound budget so that our external payments may be balanced by normal receipts from exports and international services. In other words, my country will always advocate expansion of the world economy on a basis of stability, endeavoring, in cooperation with the member countries, for wider freedom in international trade and payments and for removal of discriminatory restrictions.

I note with pleasure that, during the past year, the Fund has taken various steps to help expand the world economy on a basis of stability. Particularly appreciated are the continued efforts of the Fund on the following points: First, that bilateralism should be reduced and eventually eliminated by the coordinated action of member countries, as stated in the Fund's policy. Second, that discrimination should steadily be removed from the trade and payments relations between regional groups and outside member countries. Third, that equal and nondiscriminatory treatment of trade should be established for transactions that are settled with the same currency. And fourth, that change of status under Article XIV to that under Article VIII should be carried out with sympathetic consideration of the special economic conditions in the member countries concerned, particularly in the less developed countries.

In conclusion, I wish to express my sincere hope that the member countries, with better understanding and mutual reliance, will further their constructive cooperation for the realization of the Fund's task in the coming year.

STATEMENT BY THE ALTERNATE GOVERNOR FOR FRANCE[1]

Wilfrid Baumgartner

I should like to bring the usual share of flowers and thorns to this debate. I feel embarrassed at the thought that mere chance will have it that I speak in lieu of Mr. Paul Ramadier,[2] who is detained in Paris by his official duties, and of Mr. Pierre Mendes-France, who, for once, had to sacrifice his attachment to our institutions to other obligations. I derive my only comfort from the fact that I am a regular attendant at these Meetings, for I have had the privilege of attending them for the past 10 years, thus gathering new memories each year, the first being of lances broken with Mr. Garner. Indeed, I brought to the first loan of the International Bank the eager if not humble cooperation of the borrower and the day before yesterday I was pleased to see the very same Mr. Garner standing godfather to a new infant, maybe an infant prodigy.

We cannot forget that the two Bretton Woods institutions exert a considerable influence over our basic interests, and, in this discussion of the Annual Report of the International Monetary Fund, I should like to submit three comments—they are not original but certainly sincere.

It so happens that the work of the Fund is sometimes compared to that of the Bank, and that the latter is found to be better than the former. Although I wholeheartedly endorse the favorable opinions held on the Bank, I, nevertheless, feel that people are not altogether fair in respect to the Fund. The tasks of these two bodies are not only different but, by their very nature, almost opposite to each other. The Fund, whose very essence is to see to the soundness of currencies, cannot help being tinged with conservatism whereas the Bank is rather felt to be on the progres-

[1] Delivered in French at Session No. 4, September 26, 1956.

[2] Governor of the International Bank for Reconstruction and Development for France.

sive side. Rather than stressing their opposing duties and methods, we should emphasize the community of their interests. There can be no sound economic development without sound currencies. This is a truism we always recall without ignoring how difficult it is to implement it.

On the actual activity of the Fund, other criticisms have been heard which seem to focus on two rather contradictory main themes. For one set of people, its resources are too vast for what it does. For others, they are too feeble considering what it could do. I should like first to take up the latter assertion. The Fund is not and should never be a blind dispenser of unlimited funds. We all know that it behooves each country to make the necessary efforts to ensure the stability of its currency while sometimes having recourse, as Mr. Rooth put it, to a certain flexibility which, in my eyes, seems to require the participation of rather inflexible men in order to bring about good results.

As to the opposite criticism, I confess that it has sometimes been a matter of concern to me. But Mr. Rooth, during his term of office, which he filled with such competence, reliability and honesty as we shall never be able to pay enough tribute to, has already succeeded in introducing more flexibility in its procedure and decisions. I myself was highly pleased to hear him say that the utmost liberalism would be applied to drawings, even beyond the gold quota, the use of which amounts for the member countries to borrowing part of their own foreign exchange holdings.

I should finally like to say again with many others, and this is my third and last comment, how useful I feel the action of the Fund has been in its role as an adviser to treasuries and central banks, especially during the missions and investigations it organizes. Maybe it is in this very field that the Fund can fulfill its duties most efficiently. At least it appears to be so to me who am a practical man with a taste for experience rather than for theory and who, though feeling deep respect for the latter and

following its numerous developments with great interest, would be rather inclined to consider that doctrines often lose in clearness what they win in depth.

To face successfully the ever rising tide of economic and monetary literature, we need no less a man than Mr. Jacobsson, who is both dynamic and calm, and always reminds me, inasmuch as he is a Swede, that the Nobel Prize is a child of dynamite. The French Delegation extends its best wishes to him for his new functions, which, no doubt, he will fill both with impartiality and competence.

France has always believed in the value of international institutions. Those that convene us today certainly have not yet reached perfection. But the spirit that moves them inspires us with confidence. We wish that they may carry on and develop their action in these modern times Mr. Black mentioned yesterday with such insight. For countries such as mine, which have long since reached maturity, these big changes might well have been a subject for nostalgia. I am confident that this will not be true for France. Whilst remaining proudly conscious of her share, past and present, in the economic development of the world, especially in territories of the Franc area, she devoutly wishes the improvement of the situation of the less developed countries and, to the full extent of her strength, will participate in it within the framework of the policy of our two institutions.

Before winding up, I beg you to allow me to join in the wishes that have already been extended to our two new members, Viet-Nam and Argentina. The representative of the first will permit me to congratulate him on his excellent mastery of the French language, the representative of the second on an exemplary conciseness, which I am far from having equaled, although, contrary to a somewhat common use, I do not believe I indulged mainly in singing the praises of my own country.

STATEMENT BY THE GOVERNOR FOR GREECE[1]

Xenophon Zolotas

I would like to join in the expressions of thanks and appreciation for the excellent Report of the Executive Board and for the lucid comments of the Managing Director in presenting it. Both statements are new examples of careful and comprehensive analyses of the highest quality in accordance with the standards established and maintained by the Fund.

The Report reveals that the main features of the international financial developments since the beginning of 1955 are: first, the continued, although slower progress toward freer trade and payments, accompanied in several countries by further increases in their foreign exchange reserves; and second, the widening application of internal financial policies and correctives to counteract inflationary pressures and to bring about adjustments made necessary by balance of payments difficulties. These developments are encouraging and, to a considerable extent, may be attributed to the more orderly and coordinated international financial policies based on the Bretton Woods Agreements and the skillful efforts of the Fund.

The Report and more recent information draw our attention to renewed balance of payments problems in a number of countries. These difficulties are the result of the uneven degree of inflation which the various countries are experiencing because of varying internal pressures and disparities in the rate of investment and economic development, as reflected in the uneven rates of cost and price increases since the major postwar exchange rate adjustments of 1949. During this period, while price increases in a number of countries have not exceeded 10 per cent, in other countries the corresponding percentages vary between 10 per cent and 50 per cent. The efforts to correct the resulting disequilibria by in-

[1] Session No. 4, September 26, 1956.

ternal credit and financial policies should be firmly maintained and further strengthened. We should, accordingly, provide every possible support and encouragement to the consultations and the advisory relationships developed by the Fund. To the extent, however, that balance of payments disequilibria of a persistent nature continue to appear, we must think of additional corrective devices in order to secure further progress toward convertibility and multilateralism.

The system of fixed parities, especially in its postwar form, has well-known fundamental advantages and constitutes one of the most important strongholds of stability in a world of intense destabilizing pressures. But the merits of the system of fixed par values dictate, for the fuller pursuit of its objectives, additional support, which, I believe, should be forthcoming in two main directions.

First, I wish to restate what has been repeatedly emphasized in these gatherings and what I have personally more than once pointed out, namely, that in a system of fixed exchange rates, the foreign exchange resources to which member countries may be able to have recourse should be more plentiful than those now available.

In this connection, the importance of the increases and the wider distribution in the last two years of dollar and gold reserves must be underlined. But, while a widening of the Fund's resources and of its activities could substantially increase the short-run margins of safety, the long-term requirements of stability necessitate a substantial increase in all forms of long-term international capital movement and, in particular, the direction of investment to the underdeveloped areas of the world. The observations made on pages 20 and 21 of the Report on the nature and significance of capital movements, on the one hand, and, on the other, the launching of the International Finance Corporation are relevant and important for the maintenance of international trade and payments freedom and stability.

Second, to the extent that more permanent disequilibria in the balance of payments develop, I believe that we should attempt a compromise solution between the rigid adherence to an inflexible system of fixed parities and the acceptance of uncontrolled and unlimited exchange rate fluctuations. Whenever sizable cost and price disparities lead to persistent balance of payments disequilibria, these might become quite embarrassing for the surplus as well as for the deficit countries. In such situations, unless corrective measures of an organic character re-establish external equilibrium, the countries concerned would find themselves, sooner or later, compelled to resort to restrictive and discriminatory practices. These, although leading to provisional and only artificial equilibria, would constitute major setbacks to the efforts for the fuller application of the Bretton Woods principles. We must, therefore, seek practical and organic solutions as a way out from these difficult situations. The establishment of realistic exchange rates which would be a radical solution to such difficulties encounters, under the present circumstances, many well known limitations. I, therefore, think that a compromise might be sought in allowing a controlled flexibility of exchange rates without departing from the Bretton Woods Agreements. This can probably be achieved through a system of free variation on either side of the fixed parities within substantially wider margins than those now prevailing or usually contemplated in similar proposals. Such an arrangement would maintain the principle of fixed parities and permit only a greater degree of variability in the neighborhood of par values. At the same time, if variations were permitted on either side of the parities, depreciations up to a certain extent in weaker countries, associated with possible appreciations in stronger countries, might well correct most of the situations which have appeared or could be contemplated.

I am confident that the application of the principle of fixed parities with a greater degree of flexibility would help to achieve a workable convertibility and multilateral trade and payments.

Before I conclude, I wish to associate myself in the expression of deep appreciation to the retiring Managing Director, Mr. Rooth, for his excellent work and his achievement during his term of office and we all wish him the best of luck. It is gratifying to know that his efforts will be continued by a man of the stature and personality of Mr. Per Jacobsson. Following the tradition of his predecessor, Mr. Jacobsson will bring to the Fund a balanced combination of disciplined analyses with an intimate knowledge of the problems of particular countries. In his difficult task, the new Managing Director will have the valuable assistance of Mr. Cochran, the heads of Departments, as well as the members of the Fund's staff, who, despite the youth of this institution, have managed to create a tradition of expert knowledge and tactful negotiations and advice. I sincerely believe that under these circumstances we can look forward with confidence to the contribution of the Fund to the maintenance of stability and the promotion of freedom in international economic relations.

STATEMENT BY THE GOVERNOR FOR THE PHILIPPINES[1]

Miguel Cuaderno, Sr.

The Report of the Executive Directors is very thorough and exhaustive. It is very encouraging to note the increasing coverage and concern in the past four years in the Report of the Fund over the problems of the underdeveloped countries.

Every year since 1949, I have taken every opportunity to bring these problems to the attention of this Board. This year, I feel that I can do no better than to underscore certain significant passages of the Report of the Executive Directors and of the presentation speech of Mr. Rooth which, in my view, clearly and forcefully portray the magnitude and complexity of the problems confronting the underdeveloped countries.

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The Report tells us that "for the more developed countries, 1955 was a year of high prosperity." It is almost a ritual each year since 1952 for the Executive Board to report improving world economic conditions with the underdeveloped areas lagging far behind the industrial countries. With the fundamental imbalance in the economic structure of the underdeveloped countries and the staggering problems that they have to face as a result of the great fluctuations in their balance of payments position, it would be a miracle for them to share equally in the reported prosperity. As my distinguished colleague from the United Kingdom has said this morning, prosperity is indivisible.

Despite the prosperity in other countries, most of us in the group of underdeveloped areas still have to grapple with the difficult task of development with limited resources, particularly of foreign exchange. The problem of dancing between the Charybdis of inflation and the Scylla of economic poverty is still very much upon our countries.

It is, however, encouraging to note the increasing coverage and concern in the past four years in the Fund's Report of the problems of the underdeveloped countries. The Report before us today points out that "The balance of payments of primary producing countries as a whole deteriorated in both 1954 and 1955. From 1953 to 1954, this reflected an increased aggregate trade deficit, as exports rose little and imports expanded more."

Aggravating the position of the underdeveloped countries is the fact that, as also indicated in the Report, "The policy of protecting or expanding agricultural production in many of the more highly developed countries has . . . created marketing difficulties for efficient producers elsewhere . . ." The underdeveloped countries which are dependent on a predominantly agrarian type of economy fear that the efforts being made by the highly developed countries to dispose of their surplus production resulting from the continuing support of farm prices will "jeopardize their own export markets or depress prices, and thus create difficulties in their external payments."

Mr. Ivar Rooth, in his very enlightening valedictory, called attention to the fact that "The effect of economic fluctuations on international payments is especially significant to raw materials exporting countries. Generally speaking, changes in industrial production are accompanied by changes in the volume of raw materials exports and in their prices. For countries whose foreign exchange receipts depend upon exports of a few sensitive raw materials, sharp fluctuations in world markets for their products may impede their efforts to secure orderly development of the economy and a rise in the standard of living."

The Report of the Executive Directors calls attention to the fact that "countries whose export trade consists predominantly of primary products are especially subject to variations in export earnings . . . some of them have derived only limited benefits from the general expansion of trade and the strengthening of balances of payments during recent years. In fact, most of the countries which during the past year had serious payments problems are to be found in this group. For these countries, the case for building up reserves in times of high prices and strong export markets, substantial enough to withstand normal balance of payments fluctuations, has to be weighed against the case for speeding up economic development by using a larger proportion of foreign earnings for that purpose."

Mr. Ivar Rooth, two days ago, pointed out that "The mere attainment of the prewar volume of production and trade could not be regarded as satisfactory. A great expansion in production and exports was necessary to enable the industrial countries to put their economies on a self-sustaining basis and to establish a better balanced payments position."

Mr. Rooth stated that for the underdeveloped countries "the basic problem was even more difficult. For them, a large increase in output was necessary to maintain minimum consumption standards for their growing populations and to provide savings to develop the economy."

With respect to trade, Mr. Rooth pointed out that "The value of world trade has increased by about 60 per cent since 1950," but the discouraging fact is that, as stated by the Chairman, the distinguished Governor for Mexico, in his opening address "purchases of primary products by industrialized countries from supplying nations increased by only one third of the gain in trade between the industrialized countries."

It is my fervent hope that the problems of the underdeveloped countries which are so vividly portrayed in this year's Annual Report will not suffer the same fate as the Report itself after this Meeting—a document written with meticulous care only to be forgotten after a short period of time.

The Fund has been increasingly helpful to the underdeveloped countries in the form of temporary assistance, wise counsel and advice this organization has been giving the member countries, but such assistance is greatly circumscribed by the limitations set by its Articles of Agreement and its limited resources. Efforts in this direction should not, however, be diminished.

More effective results could be brought about if the governments we respectively represent will seriously consider the enlightened Report of the Executive Directors so that the underdeveloped countries may equally share in the present and future world prosperity.

And now I close these brief remarks with the expression of sincere regret that Mr. Rooth will no longer be with us after this Meeting. Mr. Rooth has managed the operations of the Fund ably and well. In behalf of my Government, I wish to express to him our deep appreciation for the valuable support and assistance which at all times he has been ready to extend to my country. I wish him very best wishes and continued good health. Our best wishes go to Mr. Per Jacobsson for a successful administration of the Fund.

Statement by the Temporary Alternate Governor for Korea[1]

Yu Taik Kim

I wish to join my distinguished colleagues in congratulating the International Monetary Fund for its excellent achievements during the past year which was, I need hardly say, due to the outstanding leadership of Mr. Rooth and the competence and unselfish devotion of the Fund staff members. It is regrettable to hear that Mr. Rooth is retiring soon from the Fund. However, I would like to share Mr. Rooth's satisfaction at his being succeeded by Mr. Jacobsson, a distinguished theorist as well as practitioner in the international monetary field.

The Annual Report indicates that the general trend of the world economy continues to be characterized by steady advance toward higher levels of production and well-being. This improvement in the general world economic situation has been accompanied by increased liberalization of trade and payments, which, in turn, has had beneficial effects on the international exchange of goods and services.

Amidst this welcome atmosphere of greater prosperity and more liberalized trade and payments, I should like to remind you, however, that there are still a number of less developed countries, such as my own, that have not as yet fully shared in these favorable developments. For such countries, the problems are usually complex and fundamental in nature and a rapid solution cannot be effected without large capital investments, coordinated with sound domestic monetary and fiscal policies. Thus, despite the strenuous efforts exerted by the Bank and the Fund, as well as by the people and governments of the less developed countries concerned, progress during the past year was relatively slow.

I recall that some of my fellow Governors, particularly from less developed countries, have already emphasized this problem

[1] Session No. 4, September 26, 1956.

on a number of previous occasions. While the fundamental solution to such problems does not, to be sure, lie in the realm of the Fund, may I only reiterate here their hope that the Fund will continue to explore every possible means, within the scope of its activity, of helping all of its member countries to share as fully as possible in the economic progress that the world in general has made in recent years.

STATEMENT BY THE ALTERNATE GOVERNOR FOR PERU[1]

Emilio G. Barreto

I should like to join in congratulating Mr. Rooth, Mr. Cochran and other staff members for their excellent and informative Report.

May I be permitted to make a brief commentary on that part of the Annual Report which states that inflationary pressures are still strong in a number of countries. This applies especially to those countries where the increase in public expenditure is not covered by receipts from noninflationary sources or where wage increases are not matched by a corresponding increase in productivity.

In recent years, the importance of monetary stability and the value of flexible monetary and fiscal policies has been recognized as a major means of achieving and maintaining stability. However, in some instances, owing most likely to the effectiveness in monetary policy management, this policy has been considered in itself sufficiently adequate to maintain stability, neglecting the financial equilibrium. Monetary policy in itself cannot solve permanently such problems as those arising from budgetary unbalances or from indiscriminate wage and salary increases beyond the increase in productivity.

Recent experience in some underdeveloped countries shows that, while a flexible monetary policy is a requisite to achieve

[1] Session No. 4, September 26, 1956.

and maintain the internal and external equilibrium in the economy, without the effective help of a sound fiscal policy, there is a risk of weakening the stability attained, unless prompt corrective measures are taken in the fiscal sector.

One of the main objectives of underdeveloped countries is to attempt an ordered development that will allow the stability of the internal economy and the equilibrium in the balance of payments to be maintained since, without a sound monetary and fiscal policy, the economic development will be retarded by discouraging capital formation and domestic and foreign investment.

In the case of Peru, during the present year, a budgetary disequilibrium has become apparent but has not succeeded, however, in affecting the equilibrium of the balance of payments, because of the extraordinary increment in production and investment which is taking place.

It is to be hoped that with the necessary steps that are being taken to readjust the financial position of the country, together with the credit regulations which have been recently introduced, the economic stability and a normal development of the productive activity may be maintained.

STATEMENT BY THE ALTERNATE GOVERNOR FOR INDONESIA[1]

R. Soegiarto

First of all, I would like, along with other Delegations, to express to Mr. Rooth, who is ending his term as Managing Director, our deep appreciation for the excellent work he has done for the Fund. We wish him every success and satisfaction in any work that he intends to undertake in the future. We also would like to congratulate Mr. Per Jacobsson and the Fund on Mr. Jacobsson's nomination as successor to Mr. Rooth.

[1] Session No. 4, September 26, 1956.

We have studied the Eleventh Annual Report with great satisfaction and we highly appreciate Mr. Ivar Rooth's address at this Meeting.

Between the International Monetary Fund's Meeting in Istanbul and the present one in Washington lies a year in which a high degree of business activity prevailed throughout an important part of the world. Undoubtedly, we witnessed some hesitancy in the economic process, some setback even in one or two sectors, but, on the whole, the business cycle remained on its high and favorable level. It did not belong to the task of the governments concerned to *achieve* prosperity, but to *maintain* it for the benefit of their peoples.

Such was not the fate of *all* governments. In many underdeveloped countries, as also stated just now by the Governors for the Philippines and for Korea, the struggle for development and stability went on and prosperity is still far ahead. Whenever governments in underdeveloped countries try to raise the level of their economy, they nearly always run into a kind of vicious circle. Development requires savings in domestic as well as in foreign currencies. Savings in a domestic currency depend on the national income, the level of which is low. As far as foreign currency earnings are concerned, they, too, are dependent on the general level of the economy. On top of that, the export income of many underdeveloped countries is unstable due to the frequent short-run fluctuations of the prices of primary products. A low and unstable level of income is the source from which the necessary savings for development and for investments must be drawn.

I need not tell you how complicated the task must be for the governments concerned. On the other hand, these governments are conscious of the fact that the very means to overcome the low and unstable level of income lies in development, in investing more money in agriculture and mining in order to broaden the basis of their exports and further in industrialization in order to cure the one-sidedness of their economy.

It is not my intention to put before you all the economic problems with which governments of the underdeveloped countries are confronted. But I would like to draw your attention to some basic facts, the very basicness of which is often a cause for their being forgotten or overlooked. The vicious circle of which I spoke is such a basic fact.

During the time when prosperity was still expanding, the belief was born that prosperity would be the best guarantee for the stability of the underdeveloped countries and eventually for their winning the battle against the vicious circle. I do not think that many still hold this view. Last year, prosperity prevailed in the industrialized countries, but a weakening of the business activity in one or two sectors was sufficient to cause a deterioration in the demand for primary products important to some underdeveloped countries. This fact necessarily hampered the execution of development projects. I do not want to deny the blessing of a favorable business cycle for the underdeveloped country. I gladly acknowledge its fruitfulness and necessity, not only for the countries concerned, but also for the suppliers of primary products to such countries.

Indonesia itself took advantage of the high and rising level of prosperity in the year before last. We immediately got rid of many impediments previously imposed by our low income and unstable exports and we were determined to use our increasing earnings to import and to invest more.

What I was, and am, doubtful of is the question whether the business cycle as such is sufficient to cushion the inherent instability of the economy of underdeveloped countries. Whereas it is certain that a recession or depression will be disastrous to countries like my own, the recent facts demonstrate that a favorable business cycle alone cannot prevent an underdeveloped country from serious setbacks with respect to its foreign exchange earnings. I believe that an everexpanding world economy, in other words, an everincreasing and harmonious business activity

would be most helpful, but as soon as business shows signs of weakness in one or two sectors, although on the whole remaining strong and sound, the instability of the underdeveloped countries will necessarily emerge.

This means that one cannot safely rely on the business cycle only. After all, the economy of the underdeveloped countries is too much dependent on a small number of export products and a change in demand insignificant to the economy of the industrialized countries as a whole is sufficient to cause a chain of serious reactions in the less blessed areas of the world. I think that last year's lesson should induce us to reconsider the confidence in the business cycle as a remedy against all evils.

My country, for one, was obliged to take a step back on our way to development and progress. Our export earnings declined, not because there was a recession or depression in the world, but because we were dependent on a small number of products, one of which happened to be less wanted in one of the industries of one or two countries. And yet we do not want to resort to a full dress physical control of our economy. If the measures which we have taken seem to be complicated, I would like to stress that they only affect a small percentage of our imports. We cannot possibly cut down the import of capital goods necessary for our development, nor the import of consumer goods necessary for the daily life of our people and both necessary, too, for the maintenance of a stable domestic price level. Our present measures only relate to the sector of luxury goods which comprises 5 or 6 per cent of our total imports.

In considering the course of events during the previous year, I wonder if next to stepping up the efforts to maintain the prosperity in the industrialized countries, nothing more could be done for the underdeveloped countries. The Fund has given its contribution, that is, by granting credits to countries badly hit in their balance of payments position. Such was, for instance, the case with Indonesia. We are grateful that the Fund showed

friendly understanding toward us, an understanding which materialized in the purchase of foreign exchange by my country. I would like to express my country's feelings of sincere appreciation for the valuable help we received from the Fund. This help has lessened our burden and we sincerely hope that it will bear fruit in the not too distant future. Credits such as those given to Indonesia are certainly most welcome because they help to heal the wounds inflicted on the economy of the country.

But would it be impossible to prevent that such wounds occur at all? Repressive measures are necessary, but would preventive ones not be better and more effective? Let me not be misunderstood. I decidedly hold the opinion that a strong business cycle is a first requirement and, hence, that every effort should be made to prevent prosperity from declining. But something more is needed besides and beyond the business cycle in order to achieve stability in the export earnings of the underdeveloped countries which is, at least to a high extent, similar to the stability of their economy, or, to be more specific, of their budget, their monetary position and their balance of payments.

The Fund, whether our institution likes it or not, is confronted with the problem of the instability of the export markets in that it holds as one of its tasks to overcome the difficulties arising from such instability. I wonder if the Fund could not surpass its already valuable merits. Better than many institutions or probably than any institution in the world, the Fund is acquainted with all the problems of the underdeveloped countries, including the instability of their income. The Fund has at its disposal a highly qualified staff of experts who can undertake further studies in this field and who can cooperate with other international bodies, as, for instance, the Food and Agriculture Organization and the United Nations Committee on International Trade. The Fund further has at its disposal substantial financial means with which help is given in case a country suffers from temporary balance of payments difficulties, usually arising from the instability of the

export markets, insofar as underdeveloped countries are concerned.

If some device could be found to prevent such an instability, it seems to be worth while to make use of the Fund's capital to finance the device if financing is necessary. In that case, the Fund's means will be used for balance of payments problems as well, with this difference: that in preventing the fluctuations of the income of the underdeveloped countries, the Fund will save these countries from taking a step forward and backward every time.

I do not have any clear-cut idea in my mind, but with all modesty I would like to suggest directing the Fund's assets in technical knowledge and financial means to free the underdeveloped countries from the evil of the unstable export markets. There was a time when the industrialized countries needed help as well. In spite of the fact that the present day economic conditions require watchfulness, we know that the underdeveloped countries deserve priority in our attention and concern. It is my fervent hope that at next year's Meeting we all may welcome the existence of a world economy in which the business cycle is free from its weak spots and, at the same time, in which the underdeveloped countries, with the Fund's help, are equally free from their basic plague: the instability of their export markets.

Statement by the Governor for Pakistan[1]

Abdul Qadir

It is a pleasure to congratulate Mr. Rooth, the Executive Board, and the staff of the Fund on their excellent Report. Its lucid, detailed and objective analysis has secured for it a prominent place in the current literature on international finance. It is gratifying to note that the world payments position has continued to improve and further progress has been made toward the establish-

[1] Session No. 4, September 26, 1956.

ment of a system of multilateral trade and payments. The increase in the gold and dollar reserves of countries outside the United States, despite a rather sharp reduction in the flow of U.S. private capital, is also encouraging.

While the payments position of the world as a whole has shown marked improvement, it is disquieting that the balance of payments of primary producing countries has deteriorated. As it is, this deterioration is particularly marked in the case of exporters of agricultural products. Against the background of a substantial increase in total world exports, the decline in the earnings of these countries gives cause for serious concern. In fact, as the Report points out, the share of primary producers in the value and to a less extent in the volume of world trade has tended to fall almost steadily since 1950.

It is even more disturbing that prospects for the primary producers are far from bright. Signs of a slackening in the industrially advanced economies have already become visible. This development will, no doubt, adversely affect the demand for industrial raw materials and may, in turn, accelerate the decline in the prices of primary products. This may well add to the balance of payments difficulties of some of the primary producing countries. At the risk of repetition, I wish to emphasize this problem, which has been so fully described by my distinguished friends from the Philippines and Indonesia. You will appreciate our concern in the matter, representing as I do a country which still depends heavily for foreign exchange earnings on the export of a few raw materials.

It is not always fair solely to ascribe the balance of payments difficulties of the primary producing countries to the growth of inflationary pressure. For, while the rate of development expenditures has been, of necessity, maintained at a rather high level in many of these areas, the disequilibrium in the balance of payments appears to have been caused in no small measure by an almost secular adverse movement of their terms of trade. This is,

perhaps, one reason why primary producing countries have been less disposed to rely too much on disinflationary policies as a means of securing external balance. Their immediate problem, indeed, centers round the question of the stability of their export trade. I am glad that the Report recognizes the importance of this issue. It is, however, regrettable that no concrete measures have so far been considered in the international sphere to tackle this vital problem. I know it would be unrealistic to expect that this issue could be dealt with by the Fund alone. Nevertheless, it has to be recognized that the problem seriously impedes the removal of exchange restrictions and discrimination and lies at the root of bilateral practices.

While the pressures resulting from the execution of a substantial development program on the domestic price level and the country's payments position cannot be minimized, we should not forget that in the long run it is only through the process of economic growth that it would be possible to sustain the movement toward multilateral trade and free payments. Indeed, to my mind, there can be no more serious threat to a country's continuous progress toward freedom of trade than the one that arises from its extreme vulnerability to fluctuations in the world economy. The experience of my country lends support to this contention. During the last few years, we have been engaged in a fairly large development effort. This involved the continuance and, even to some extent, the accentuation of restrictions on imports and payments. The favorable repercussions of the development effort are, however, already visible. The country's production structure is being diversified. This has helped in the elimination of bilateral arrangements and has facilitated liberalization of imports and abolition of discrimination between different currency areas.

Before I conclude, may I take this opportunity to express our sense of appreciation of the work done by the Fund missions which visited the less developed countries. The economic surveys conducted by them have proved very useful; so, also, the con-

sultations conducted by the Fund with countries in which exchange restrictions continue to operate. I have personal experience of these consultations and I was very much impressed by the wide outlook and the sympathetic approach of the Fund mission during these consultations.

And lastly, I would be failing in my duty if I did not mention here how grateful we all are to Mr. Rooth, who guided so ably the operational policy of the Fund during the last five years. During this crucial period, the Fund and Mr. Rooth became synonymous and it will take quite some time before we get reconciled to the picture of the Fund without Mr. Rooth. The fact that he visited Pakistan and other less developed countries, at great personal inconvenience, shows how keen was his desire to assist these countries. Now that he has decided to retire, we wish Mr. Rooth the best in life and extend a hearty welcome to his worthy successor. We look forward to his regime with confidence and assure him of our full cooperation.

Statement by the Alternate Governor for Paraguay[1]

Pedro R. Chamorro

Paraguay is proud to report that it is continuing to maintain the exchange and stabilization program mentioned in the Annual Report of the International Monetary Fund. In March of this year, Paraguay abandoned a very complicated multiple exchange rate system and embarked upon fiscal and credit policies to end inflation in Paraguay.

A certain amount of both monetary and price inflation continued in the first phase of the stabilization program. However, the Paraguayan authorities are now confident that the inflationary forces are under control and that substantial progress will be made

[1] Session No. 4, September 26, 1956. The statement was read by Mr. Osvaldo Chaves, Governor of the International Bank for Reconstruction and Development for Paraguay, on behalf of Mr. Chamorro.

in the next six months toward the establishment of real stability in Paraguay. The Paraguayan Government is convinced that the financial policies that it is now pursuing will lead to a sound currency and the establishment of the basis for a balanced and enduring economic growth. The Government is also considering the adoption of additional measures to create an environment in Paraguay conducive to the growth of domestic savings and foreign capital investments.

We are also happy to report that Paraguay is moving away from bilateral trade and payments arrangements. This policy toward multilateralism is motivated not only by a desire to conform with the Fund Articles of Agreement but primarily by a sincere conviction that the real economic interests of Paraguay lie in a multilateral trading system rather than narrow bilateralism. Bilateral payments arrangements covering approximately 70 per cent of Paraguay's international trade are being replaced during 1956 with multilateral payments arrangements. It is also of interest that these multilateral payments arrangements are being concluded not only with European countries but, on Paraguay's initiative, are being extended to countries of South America.

Paraguay is very grateful to the Fund for the assistance, both positive and practical, rendered in this broad stabilization effort. In the first instance, the Fund contributed in the formulation of the detailed plan. Later, the Fund responded with extended technical assistance on the spot and with financial aid to assure the success of the program.

The Government of Paraguay wishes to express its sincere appreciation for the role Mr. Ivar Rooth has played personally in understanding the problems and needs of Paraguay which has resulted in an atmosphere of cordial and close working relations with the Fund. We receive with great regret the news of Mr. Rooth's departure from the Fund. However, we hope that the cordial relationship he developed will continue under the new Managing Director, Mr. Per Jacobsson.

Statement by the Governor for Canada[1]

Walter Edward Harris

I am grateful to the Governors who have expressed their views on the suggestion I put forward regarding the Executive Board, and I am pleased that the representatives of several countries have seen merit in these ideas.

It would clearly be premature to ask the Governors to take any action at the present time. Governments will need time to consider the implications for them of a change along the lines of my suggestion and to decide whether or not they wish to be represented by Executive Directors who also have operating responsibilities at home.

May I refer briefly, however, to the comments, and the very welcome comments, from the Governor for the Netherlands. We realize that the position of all the countries is not the same. We had, in fact, taken the points he raised into account before putting forward our proposals. We hope that, as he and the other Governors study the matter further, they may come to the conclusion, as we did, that the difficulties he referred to are not as important as the advantages of the alternative arrangements.

Further, there is a good deal that the Managing Director and the Executive Board could themselves do to make it possible for the Board to function on a different basis, particularly through the scheduling of meetings. I shall await with confidence a study of this problem by the Managing Director, as has been suggested.

Ultimately, of course, it is for the governments to decide how they want the Fund to function, and we shall look forward hopefully to seeing to what extent governments find it useful and convenient to be represented in the way I have suggested.

[1] Session No. 4, September 26, 1956.

Concluding Remarks[1]

Ivar Rooth

Mr. Chairman, under your guidance, we have had a helpful discussion of the Annual Report and the work of the Fund. It is not my intention to summarize all that has been said by the Governors. Instead, I shall note and comment on some of the questions which have elicited their interest.

Many Governors have spoken of the quality of the Annual Report, and some have emphasized the usefulness of this informative analysis of the complex problems that confront our members. We are pleased to know that our effort to provide such a review of the world economy is so well received. We hope that the Annual Report will grow in wisdom and authority, but not in size, and that it will continue to show that the Fund is alert to changing economic conditions.

From these discussions, it is clear that the threat of inflation is uppermost in the minds of all the Governors. The problems of growth and development, as the Governor for the United States noted, are being felt in all countries. Investment is running ahead of savings and wages are increasing more rapidly than productivity. All over the world, there is the threat of a steady rise in prices and costs that will lower the value of money and that may ultimately weaken world payments.

While realizing that the task of dealing with cost and price inflation is difficult, several Governors felt that there is good reason to be hopeful that this threat to monetary stability will be met. The encouraging feature, as the Governor for the United States remarked, is that some countries have already had considerable success in fighting inflation and that many others are taking steps to put anti-inflationary policies into effect.

[1] Session No. 5, September 27, 1956.

A number of Governors have called attention to the fact that monetary policy is not by itself adequate to avoid inflation. As the Governor for Peru noted, there is no way by which monetary policy can offset excessive public expenditure or indiscriminate wage increases. The Fund has always taken the view that an effective anti-inflation program must be comprehensive. It must include not only monetary policy, but a sound budget policy related to tax receipts, an investment policy properly related to savings and capital inflow, and a wage policy under which personal incomes do not rise faster than increases in productivity. The special significance of monetary policy is that it enters into every other item of any complete program to prevent inflation.

The Governor for the United States spoke of the trusteeship of the monetary authorities to maintain stability in the value of money. The Fund is the spokesman for all of you. We have been and will continue to be advocates of the dual objectives of stability and progress. We could not be otherwise, for, as the Governor for the United Kingdom said, the functioning of the Fund depends upon the success of the internal policies of its members in maintaining healthy economies. It is encouraging that so many underdeveloped countries have recognized that a sound monetary policy makes a positive contribution to development. Monetary stability is not all that is needed for development, but I know of no problem connected with development that cannot be dealt with more effectively in an environment of monetary stability.

The Governor for the United Kingdom called attention to what has been done by the United States to encourage imports through the reduction of tariffs and the simplification of customs procedures. There can, I believe, be no greater impetus to the relaxation of restrictions and the elimination of dollar discrimination than that given by a liberal trade policy in the United States.

The Governor for Canada expressed the view that the Fund's objectives are as valid now as when they were adopted at Bretton Woods. I believe that I summarize your feelings when I say there

has never been greater agreement than at this time, that the Fund must move steadily forward with its task of establishing a multilateral system of payments, free of restrictions and discriminations. I am encouraged, as I know you are, by the wide recognition of the disadvantages of bilateralism and of the need for greater transferability of currencies. We hope and expect that rapid progress will be made toward the elimination of bilateralism.

The Governor for the Netherlands made a penetrating analysis of the complexities that enter into the determination of policy on the proper use of the Fund's resources. The Governor for the United Kingdom noted that the use of the Fund's resources has declined in recent years. This has, as he explained, arisen from the fact that the liberalization of Fund policy has coincided with a period of strength in dollar payments and a growth in gold and dollar reserves. He added that it is important for members to come to regard the use of the Fund's resources in much the same way as the use of reserves, and that drawings on the Fund should be a normal source of foreign exchange for short-term reserve requirements. We all rejoice in the conditions that have made it possible for many members to diminish their drawings on the Fund. Nevertheless, it is worth noting that, even when members do not draw on the Fund, its large resources are helpful in giving confidence to them.

The Governor for the Netherlands called attention to the difficulties that might arise from too much use of the Fund's resources in a period of world-wide inflation. There is general agreement that we do not want any spectacular rise in transactions at this time. Even under present conditions, however, some countries may have payments problems that are not attributable to inflation, and such countries are right in expecting the Fund to be concerned with their difficulties. As the Governor for Germany said, and I share his view, there need be no doubt that the use of the Fund's resources will increase. In the meantime, he recommended that the Fund should concentrate on special

cases. There are instances in which use of the Fund's resources would involve no actual increase in expenditure, but would permit countries to meet promptly international obligations already incurred and give members confidence to undertake a program of stabilization.

Some special problems in connection with the use of the Fund's resources were noted by some Governors, particularly the desirability of reconsidering the schedule of charges and of exploring the possibilities of repurchase in some form other than with gold and convertible currencies. These and other related questions are being studied by the staff and will later be discussed by the Executive Board. As the Fund has repeatedly announced, it wants its members to have assurance that the Fund's resources will be available for use on every proper occasion. I believe that members are aware that this is the attitude of the Fund.

Many Governors have spoken of the widening role of the Fund in the world economy. The Governor for the United States expressed the view that the Fund has grown in prestige and influence. The Governor for the United Kingdom noted that one of the greatest achievements of the Fund is the habit which its members have formed of cooperation in monetary and financial matters. The Governors for Chile, Mexico, Turkey and several other countries spoke with appreciation of the advice and financial assistance they have had from the Fund.

As the Governor for the United States remarked, it is important for the Fund to give its advice to members both promptly and quietly. In the last analysis, the influence of the Fund depends on the confidence it inspires in its members; this is a plant of slow growth. We have seen confidence take root and grow in the past 10 years. I have no doubt that it will yield a steady harvest of good will and constructive achievement.

The Governor for Canada has urged the Fund to reconsider its working methods and, in particular, to appoint as Executive Directors men who have official responsibilities in their own

central banks or treasuries. The routine work of the Executive Board could then be carried on by the Alternate Executive Directors with the Executive Directors coming on occasion for major policy decisions. I believe that this proposal has much to commend it, particularly in relation to Executive Directors who represent only one country. As the Governor for the Netherlands pointed out, however, most Executive Directors represent more than one country, and the best way to serve the countries they represent may be by residence at the seat of the Fund.

The Governor for the United Kingdom expressed the opinion that the Canadian proposal has great merit. Both he and the Governor for the United States suggested that the question be considered by the new Executive Board and the new Managing Director. The Fund has in the past tried to schedule its work to cause a minimum of inconvenience for those of its Executive Directors who have responsibilities that keep them for extended periods in their own countries. Of course, the necessity of meeting its own responsibilities must be the prime consideration for the Fund on this as on other questions. You may be sure that the suggestion of the Governor for Canada will be given full consideration.

And now I should like to add this personal word. I have been deeply touched by the tributes you have paid to me. I shall throughout my life cherish what you have said. I am no less gratified that so many Governors have expressed their confidence in the new Managing Director. I share this confidence which grows out of close association and friendship with him over many, many years. His character and ability and your trust and cooperation provide the strongest assurance that the Fund will perform the useful and important tasks for which it was created.

REPORTS OF THE EXECUTIVE DIRECTORS

Report No. 1

SIXTH REGULAR ELECTION OF EXECUTIVE DIRECTORS

September 22, 1956

Dear Mr. Chairman:

At its Eleventh Annual Meeting the Board of Governors shall have to adopt Rules for the Conduct of the Sixth Regular Election of Executive Directors which will then take place.

Submitted herewith for the Board of Governors are:

1. A Report of the Executive Directors to the Board of Governors regarding the Sixth Regular Election of Executive Directors.
2. Proposed Rules for the Conduct of the Election.
3. Proposed Resolution to the Board of Governors regarding this election.[1]

Very truly yours,
/s/
Ivar Rooth
Managing Director
and
Chairman of the Executive Board

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

Enclosures

Recommended for approval by the Procedures Committee (Report No. 1, page 121) and approved at Session No. 1, September 24, 1956.

[1] Resolution No. 11-5, page 141.

September 22, 1956

REPORT OF THE EXECUTIVE DIRECTORS TO THE BOARD OF GOVERNORS SIXTH REGULAR ELECTION OF EXECUTIVE DIRECTORS

1. Section 3(d) of Article XII of the Articles of Agreement of the Fund provides that elections of elective Directors shall be conducted at intervals of two years. The Fifth Regular Election of Executive Directors was held at the Ninth Annual Meeting of the Board of Governors in September 1954.

2. Section 3(b) of Article XII provides that there shall not be less than twelve Executive Directors, of whom
   - (i) five shall be appointed by the five members having the largest quotas;
   - (ii) not more than two shall be appointed when the provisions of Article XII, Section 3(c) apply;
   - (iii) five shall be elected by the members not entitled to appoint Directors, other than the American Republics; and
   - (iv) two shall be elected by the American Republics not entitled to appoint Directors.

3. It is further provided in Section 3(b) that, "When governments of other countries become members, the Board of Governors may, by a four-fifths majority of the total voting power, increase the number of Directors to be elected."

4. Under this provision the Board of Governors has on three occasions increased the number of Directors under Section 3(b)(iii) as the total voting power increased with the admission of new members. On the last occasion, at their Seventh Annual Meeting, the Board of Governors increased the number of Directors from fourteen to sixteen, the net increase in votes since the prior election having been 8,755. Since the Fourth Regular Election of Executive Directors,

conducted at the Seventh Annual Meeting of the Board of Governors, six countries that were not included in Schedule A, namely, Afghanistan, the Argentine Republic, Indonesia, Israel, the Republic of Korea and the Republic of Viet-Nam, have become members of the Fund, with a combined voting power of 4,495. Furthermore, the quota of Ecuador has been increased, giving Ecuador an additional 50 votes. (Nicaragua has until October 22, 1956,[1] to consent to the increase in its quota, as approved by the Board of Governors.)

5. The Executive Directors recommend that nine Directors be elected under Article XII, Section 3(b)(iii), the same number as were elected at the Fifth Regular Election.

6. The Executive Directors also recommend that the minimum percentage of eligible votes required for election and the maximum percentage of eligible votes for any one nominee as specified in paragraphs 2, 3, 4 and 5 of Schedule C shall be 10 per cent and 14 per cent, respectively.

7. The attached proposed rules (Appendix I),[2] embodying the above recommendations, are substantially the same as the rules for the conduct of the Fifth Regular Election of Executive Directors, adopted by the Board of Governors in September 1954.

8. In view of the entrance of the Argentine Republic into membership in the Fund, it is recommended that the number of Executive Directors to be elected under Article XII, Section 3(b)(iv) be increased to three. If the Board of Governors determines so to increase the number of Executive Directors to be elected, additional rules for the conduct of the election of Executive Directors under Article XII, Section 3(b)(iv) will be required. The Executive Directors recommend that such rules specify a minimum of 28 per cent of eligible votes

[1] The increase in the quota for Nicaragua did not become effective until October 17, 1956.

[2] See Note, page 107.

required for election and a maximum of 38 per cent of eligible votes for any one nominee. Proposed rules incorporating this recommendation are set forth in Appendix II. These rules differ from the rules of election set out in Appendix I only with respect to the provision for the conduct of election of Executive Directors by the American Republics not entitled to appoint Directors.

Appendix I

Explanatory Note

The proposed Rules set out in Appendix I have not been reproduced in these Summary Proceedings since the Rules set out in Appendix II below were approved, as recommended by the Procedures Committee (Report No. 1, page 121), at Session No. 1, September 24, 1956, and were followed in the election held at Session No. 5, September 27, 1956. The Rules proposed in Appendix I may be found in Fund Document No. 6.

Appendix II

Proposed Rules for the Conduct of the Sixth Regular Election of Executive Directors of the Fund[1]

1. *Definitions:* In these Rules, unless the context shall otherwise require:
   - (a) Articles referred to are the Articles of Agreement of the Fund.
   - (b) The term "Board" means the Board of Governors of the Fund.
   - (c) The term "Chairman" means the Chairman of the Board of Governors or a Vice-Chairman acting as Chairman of the Board.
   - (d) The term "Governor" includes the Alternate Governor or any temporary Alternate Governor designated in ac-

[1] Approved at Session No. 1, September 24, 1956.

cordance with Section 12 of the By-Laws when acting for the Governor.

(e) The term "Secretary" means the Secretary of the Fund.

(f) The term "election" means the Sixth Regular Election of Executive Directors.

(g) The term "session" means the meeting of the Board at which the election is held.

2. *Date of Election:* The election shall be held during the Eleventh Annual Meeting[1] of the Board at a session to be appointed by the Board.

3. *Basic Rules:* Subject to the adjustments hereinafter set forth, the provisions of Schedule C of the Articles of Agreement of the Fund shall apply to the conduct of the election.

4. *Number of Executive Directors to be Elected Under Article XII, Section 3(b)(iii):* At such election nine Executive Directors shall be elected under Article XII, Section 3(b)(iii).

5. In view of the number of Executive Directors to be elected under Article XII, Section 3(b)(iii):

(a) "Ten per cent" shall be substituted for "nineteen per cent" in paragraphs 2 and 5 of Schedule C.

(b) "Fourteen per cent" shall be substituted for "twenty per cent" in paragraphs 3, 4 and 5 of Schedule C.

6. *Number of Executive Directors to be Elected Under Article XII, Section 3(b)(iv):* At such election three Executive Directors shall be elected under Article XII, Section 3(b)(iv); and

(a) The minimum percentage of the eligible votes required for election under this subparagraph shall be twenty-eight per cent.

(b) The maximum percentage of eligible votes for any one nominee for the purposes of Rule 18 shall be thirty-eight per cent.

[1] See Procedures Committee Report No. 1, Annex V, page 126. The election was held at Session No. 5, September 27, 1956.

7. *Nominations:*

   (a) A person shall be eligible for election as Executive Director when nominated by one or more Governors.

   (b) Each nomination shall be made on a Nomination Form to be obtained from the Secretary and signed by the Governor or Governors making the nomination.

   (c) A Governor shall nominate only one person.

   (d) On the day preceding the session the Chairman shall, preferably in the Board, announce the nominations received, ask for any further nominations, and close the nominations.[1] The Secretary shall post a list of the persons nominated.[2]

8. *Tally Sheets:* The Secretary shall post at the session and distribute to each Governor and Alternate Governor prior to the election a Tally Sheet substantially in the form of Annex A attached hereto[3] and a list of the persons nominated.[2]

9. *Form of Ballot:* The Secretary shall have available a sufficient number of ballot forms substantially in the form of Annex B attached hereto.[3]

10. *Supervision of the Election:* The Chairman shall supervise the election and shall appoint such tellers and other assistants as he deems necessary.

11. *Distribution of Ballots:* One ballot form shall be furnished to each Governor entitled to vote immediately before a ballot is taken. On any particular ballot only ballot forms distributed for that ballot shall be counted.

12. *Balloting—Order:* The first ballot shall be simultaneous balloting of all the Governors entitled to participate in the election of Executive Directors under Article XII, Section 3(b)(iii) and all of the American Republics entitled to participate in the election of Executive Directors under Article XII, Section 3(b)(iv). The balloting for the Executive Directors elected under Article XII, Section 3(b)(iii) shall then be

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[1] Session No. 4, September 26, 1956.

[2] Fund Document No. 9.

[3] Fund Document No. 6.

concluded before any further ballots are taken for the Executive Directors to be elected by the American Republics.

13. *Balloting–General:* Each ballot shall be taken as follows:

(a) The roll of members whose Governors are entitled to vote shall be called in alphabetical order.

(b) Immediately after a member's name is called, the Governor for such member shall deposit his signed ballot in the ballot box.

(c) When the roll call shall have been completed and the ballots cast, the Chairman shall cause the ballots to be counted and shall cause to be announced (i) the names of the members whose Governors voted for each nominee and the total number of votes received by such nominee, (ii) the name of each person elected, and in case the votes of any members counted toward, but were not cast for, his election, the names of such members, and (iii) the names of the members whose Governors are entitled to vote on the next ballot, if any.

(d) In the event that the tellers shall be of the opinion that any particular ballot is not properly executed, they shall, if possible, afford the Governor casting such ballot an opportunity to correct it before tallying the results; and such ballot, if so corrected, shall be deemed to be a valid ballot.

14. *Recess:* After any ballot, the Chairman may adjourn the session for such period as he may deem necessary, if in his opinion such action will facilitate the election.

15. *Election of Executive Directors Under Article XII, Section 3(b)(iii):*

(a) The provisions of Schedule C as adjusted by these Rules shall govern the election of Directors under this subparagraph.

(b) When on any ballot the number of nominees shall not exceed the number of Executive Directors to be elected, each nominee shall be deemed to be elected by the number of votes received by him on such ballot; provided, however, that if on such ballot the votes of any Governor

shall be deemed under paragraph 4 of Schedule C to have raised the votes cast for any nominee above fourteen per cent of the eligible votes, no nominee shall be deemed to have been elected who shall not have received on such ballot ten per cent of the eligible votes and a succeeding ballot shall be taken on which any nominee not elected shall be eligible.

16. *Election of Executive Directors Under Article XII, Section 3(b)(iv):*

(a) These Rules shall in place of paragraph 7 of Schedule C govern the election of the Directors to be elected by the American Republics under Article XII, Section 3(b)(iv).

(b) Each of the Governors entitled to vote shall cast for one person all the votes held by him under Article XII, Section 5(a).

(c) If there are more than three nominees, the three nominees receiving the greatest number of votes shall be elected, provided that no nominee shall be elected who receives less than twenty-eight per cent of the eligible votes.

(d) When on any ballot the number of nominees shall not exceed the number of Executive Directors to be elected, each nominee shall be elected by the number of votes received by him; provided, that if the votes of any Governor shall be deemed to have raised the votes cast for any nominee above thirty-eight per cent of the eligible votes, no nominee shall be elected on that ballot who shall not have received twenty-eight per cent of the eligible votes and a succeeding ballot shall be taken on which any nominee not elected on the preceding ballot shall be eligible.

17. *Balloting–Succeeding Ballots for Election of Executive Directors Under Article XII, Section 3(b)(iii):*

(a) If, as a result of the first ballot, the number of Executive Directors to be elected in accordance with paragraph 4 above shall not have been elected, a second and, if

necessary, further ballots shall be taken. The Governors entitled to vote on such succeeding ballots shall be only (i) those Governors who voted on the preceding ballot for any nominee not elected, and (ii) those Governors whose votes for a nominee elected on the preceding ballot are deemed under paragraph 4 of Schedule C to have raised the votes cast for such nominee above fourteen per cent of the eligible votes.

(b) The votes of a Governor shall not be deemed under paragraph 4 of Schedule C to have raised the total votes for a nominee above fourteen per cent of the eligible votes if without the votes of such Governor such total would be more than ten per cent but not more than fourteen per cent of the eligible votes.

(c) If on any ballot two or more Governors having an equal number of votes shall have voted for the same nominee and the votes of one or more, but not all, of such Governors could be deemed under paragraph 4 of Schedule C to have raised the total votes received by such nominee above fourteen per cent of the eligible votes, the Chairman shall determine by lot the Governor or Governors, as the case may be, who shall be entitled to vote on the next ballot.

(d) If a Governor shall abstain from voting on any of the ballots held for the election of Executive Directors under Article XII, Section 3(b)(iii), he shall not be entitled to vote on any subsequent ballot, and his votes shall not be counted, within the meaning of Article XII, Section 3(i), towards the election of any Executive Director; provided, however, that if such abstention shall have first occurred on the last of several ballots, the votes of such Governor shall be deemed to have been cast for the election of the Executive Director elected on such ballot by the least number of votes. If at the time any ballot is taken a member shall not be represented by a Governor at the Annual Meeting or session at which the ballot is taken, the member and its Governor, if any, shall be deemed for the purpose of this paragraph to have abstained from voting on that ballot.

18. *Balloting—Succeeding Ballots for Election of Executive Directors Under Article XII, Section 3(b)(iv):*

(a) If, as a result of the first ballot, the number of Executive Directors to be elected in accordance with paragraph 6 above shall not have been elected, a second and, if necessary, further ballots shall be taken. The Governors entitled to vote on such succeeding ballots shall be only (i) those Governors who voted on the preceding ballot for any nominee not elected, and (ii) those Governors whose votes for a nominee elected on the preceding ballot are deemed to have raised the votes cast for such nominee above thirty-eight per cent of the eligible votes.

In determining whether the votes cast by a Governor are to be deemed to have raised the total of any nominee above thirty-eight per cent of the eligible votes, the thirty-eight per cent shall be deemed to include, first, the votes of the Governor casting the largest number of votes for such nominee, then, the votes of the Governor casting the next largest number of votes and so on until thirty-eight per cent is reached.

(b) The votes of a Governor under subparagraph (a) above shall not be deemed to have raised the total votes for a nominee above thirty-eight per cent of the eligible votes if without the votes of such Governor such total would be more than twenty-eight per cent but not more than thirty-eight per cent of the eligible votes.

(c) If on any ballot two or more Governors having an equal number of votes shall have voted for the same nominee and the votes of one or more, but not all of such Governors, could be deemed under subparagraph (a) above to have raised the total votes received by such nominee above thirty-eight per cent of the eligible votes, the Chairman shall determine by lot the Governor or Governors, as the case may be, who shall be entitled to vote on the next ballot.

(d) If a Governor shall abstain from voting on any of the ballots held for the election of three Executive Directors to be elected under Article XII, Section 3(b)(iv), he shall remain entitled to vote on subsequent ballots.

19. *Elimination of Nominees:* If on any ballot two or more nominees shall receive the lowest number of votes, no nominee shall be dropped from the next succeeding ballot, but if the same situation shall continue on such succeeding ballot, the Chairman shall eliminate by lot one of such nominees from the next succeeding ballot.

20. *Announcement of Results of Election:* After the last ballot of the election, the Chairman shall cause to be distributed to each Governor a statement setting forth the results of the election.[1]

21. *Effective Date of Election of Executive Directors:* The effective date of the election shall be November 1, 1956. Incumbent elected Executive Directors shall serve through the day preceding such date.

22. *General:* Any question arising in connection with the conduct of the election shall be resolved by the tellers, subject to appeal, at the request of any Governor, to the Chairman and from him to the Board. Whenever possible, any such question shall be put in general terms without identifying the members or Governors concerned.

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[1] Page 115.

Appendix III

Statement of Results of Election, September 27, 1956[1]

Candidates Elected Under Article XII, Section 3(b)(iii)

Candidate Elected	*Members Whose Votes Counted Toward Election*	*Votes by Country*	*Total Votes*
L. H. E. Bury (Australia)	Australia	2,250	
	Union of South Africa	1,250	
	Viet-Nam	375	3,875
Otmar Emminger (Federal Republic of Germany)	Federal Republic of Germany	3,550	3,550
Torben Friis (Denmark)	Denmark	930	
	Finland	630	
	Iceland	260	
	Norway	750	
	Sweden	1,250	3,820
Carlo Gragnani (Italy)	Greece	650	
	Indonesia	1,350	
	Italy	2,050	4,050
Pieter Lieftinck (Netherlands)	Israel	295	
	Netherlands	3,000	
	Yugoslavia	850	4,145
Louis Rasminsky (Canada)	Canada	3,250	3,250
Ahmed Zaki Saad (Egypt)	Afghanistan	350	
	Egypt	850	
	Ethiopia	310	
	Iran	600	
	Iraq	330	
	Jordan	280	
	Lebanon	295	
	Pakistan	1,250	
	Philippines	400	
	Syria	315	4,980

[1] Session No. 5.

Candidates Elected Under Article XII, Section 3(b)(iii) (Continued)

Candidate Elected	Members Whose Votes Counted Toward Election	Votes by Country	Total Votes
Andre van Campenhout (Belgium)	Austria	750	
	Belgium	2,500	
	Korea	375	
	Luxembourg	350	
	Turkey	680	4,655
Takeshi Watanabe (Japan)	Burma	400	
	Ceylon	400	
	Japan	2,750	
	Thailand	375	3,925

Candidates Elected Under Article XII, Section 3(b) (iv)

Candidate Elected	Members Whose Votes Counted Toward Election	Votes by Country	Total Votes
Rodolfo Corominas-Segura (Argentina)	Argentina	1,750	
	Bolivia	350	
	Chile	750	
	Ecuador	350	
	Paraguay	285	
	Uruguay	400	3,885
Octavio Paranagua (Brazil)	Brazil	1,750	
	Colombia	750	
	Dominican Republic	350	
	Haiti	270	
	Panama	255	
	Peru	500	3,875
Jorge Sol (El Salvador)	Costa Rica	300	
	Cuba	750	
	El Salvador	275	
	Guatemala	300	
	Honduras	275	
	Mexico	1,150	
	Nicaragua	270[1]	
	Venezuela	400	3,720[1]
			47,730[1]

[1] As of October 17, 1956, with the increase in quota for Nicaragua, Nicaragua has a total of 325 votes. The total votes for Mr. Sol as of that date change to 3,775. The total votes for elected Executive Directors change to 47,785.

Report No. 2

Increase in Quota of the Dominican Republic

September 22, 1956

Dear Mr. Chairman:

I am transmitting herewith on behalf of the Executive Board a proposed resolution,[1] which is recommended for adoption by the Board of Governors, on an increase in the quota of the Dominican Republic.

Very truly yours,

/s/
Ivar Rooth
Managing Director
and
Chairman of the Executive Board

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

Recommended for approval by the Procedures Committee (Report No. 1, page 121) and approved at Session No. 1, September 24, 1956.

[1] Resolution No. 11-6, page 142.

Report No. 3

AMENDMENTS TO THE RULES AND REGULATIONS

September 22, 1956

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 December 27, 1955, Rules I-2 and I-4(f) were amended to extend until June 30, 1956, the then prevailing service charge on transactions and charges on the Fund's holdings of member currencies in excess of quotas.

On May 23, 1956, Rules I-2 and I-4(f) were further amended by substituting "December 31, 1956" for "June 30, 1956."

These Rules as last amended are set forth in Annex I. A proposed Resolution for consideration by the Board of Governors is attached as Annex II.[1]

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

Very truly yours,
/s/
Ivar Rooth
Managing Director
and
Chairman of the Executive Board

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

Recommended for approval by the Committee on Finance and Organization (page 130) and approved at Session No. 5, September 27, 1956.

[1] Resolution No. 11-8, page 143.

Annex I

Amendments to the Rules and Regulations Since the Tenth Annual Meeting

Rule I-2. Text as amended on May 23, 1956 *(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 [December 31, 1955 (amended December 27, 1955 to read June 30, 1956)] December 31, 1956, shall be ½ of 1 per cent.
>
> [*Former 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 and May 23, 1956*]

Rule I-4(f). Text as amended on May 23, 1956 *(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 [December 31, 1955 (amended December 27, 1955 to read June 30, 1956)] December 31, 1956:
>
> (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.

[*Former text adopted December 23, 1953, amended December 15, 1954, December 27, 1955 and May 23, 1956*]

Report No. 4

MEMBERSHIP FOR THE REPUBLIC OF THE SUDAN

September 22, 1956

Dear Mr. Chairman:

I am transmitting herewith on behalf of the Executive Board a proposed resolution,[1] which is recommended for adoption by the Board of Governors, on the admission of the Republic of the Sudan to membership in the Fund.

Very truly yours,

/s/
Ivar Rooth
Managing Director
and
Chairman of the Executive Board

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

Recommended for approval by the Committee on Finance and Organization (page 130) and approved at Session No. 5, September 27, 1956.

[1] Resolution No. 11-9, page 144.

COMMITTEE REPORTS
PROCEDURES COMMITTEE

Chairman . . . . Mexico
Vice-Chairman . . . . Iraq
Reporting Member . . . . Denmark

Other Members: Australia, Bolivia, Burma, China, France, Greece, India, the United Kingdom, and the United States

Report No. 1

September 22, 1956

Sir:

The Procedures Committee,[1] at its first meeting at 4:30 p.m., on September 22, 1956, considered the matters of business which had been proposed for the Eleventh Annual Meeting of the Boards of Governors of the Fund and the Bank.

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

BUSINESS OF THE BOARD OF GOVERNORS OF THE FUND

A. *Agenda*

The Committee recommends:

1. That the agenda attached as Annex I be adopted.

2. That, after the adoption of the initial agenda, proposed additions to the agenda be submitted in writing to the Procedures Committee, through the Chairman, for its recommendations.

[1] The Procedures Committee reported also on the business proposed by the Bank, all references to which, however, have been omitted here. The numbering of the Annexes in this Report has been adjusted to take account of this fact.

B. *Committee*

The Committee recommends that a Committee on Finance and Organization be established, as shown in Annex II, to consider and report[1] on the items shown in Annex III.

C. *Fund Discussions*

The Committee recommends:

1. That there be a discussion of the business of the Fund to consider views of the Governors on the policies and activities of the Fund.

2. That there be an informal discussion on the subject of *Recent Developments in Monetary Analysis,* as shown in Annex IV.

D. *Sixth Regular Election of Executive Directors*

The Committee considered the Report of the Executive Directors of the Fund regarding the Sixth Regular Election of Executive Directors of the Fund (Fund Document No. 6).[2] The Committee recommends the adoption of the draft resolution relating to the Sixth Regular Election of Executive Directors of the Fund[3] and the proposed rules for the conduct of that election[4] attached thereto.

E. *Dominican Republic—Quota Adjustment*

The Committee considered the report of the Executive Directors on the request of the Dominican Republic for an increase in its quota (Fund Document No. 5).[5] In order that the action may become effective before the conclusion of this Annual Meeting, the Committee recommends that the Board of Governors consider the matter at the opening session and that the draft resolution[6] attached to the report be adopted.

[1] Page 130.
[2] Page 104.
[3] Resolution No. 11-5, page 141.
[4] Page 107.
[5] Page 117.
[6] Resolution No. 11-6, page 142.

Procedural Matters of Joint Concern to the Fund and the Bank

A. *Order of Business*

The Committee recommends that the provisional schedule in Annex V be adopted, and that the Secretaries of the Fund and the Bank, in consultation with the Chairman, may modify it as necessary. It will be noted that the afternoon of September 24 is set aside for the Inaugural Meeting of the Board of Governors of the International Finance Corporation.

B. *Conduct of Meeting*

The Committee recommends that the provisions relating to the conduct of the Meeting, as contained in Annex VI, be approved.

C. *Procedural Items*

This Committee will make a later report[1] to the Boards of Governors on:

1. Place and Date of Twelfth Annual Meeting.[2]

2. Election of Officers[3] and Joint Procedures Committee for 1956-57.[4]

Approved:

/s/	/s/
Antonio Carrillo Flores	Svend Nielsen
(Mexico)	(Denmark)
Chairman	Reporting Member

The Report was approved and Resolutions Nos. 11-5 and 11-6 were adopted at Session No. 1, September 24, 1956.

[1] Report No. 2, page 128.
[2] Resolution No. 11-10, page 147.
[3] Resolution No. 11-11, page 147.
[4] Resolution No. 11-12, page 147.

Annex I

AGENDA

1. Eleventh Annual Report
2. Financial Statements and Report on Audit
   (Appendix IX of Eleventh Annual Report and Fund Document No. 2)
3. Administrative Budget
   (Appendix VIII of Eleventh Annual Report)
4. Changes in Rules and Regulations
   (Fund Document No. 3)
5. Sixth Regular Election of Executive Directors
   (Fund Document No. 6)
6. Republic of the Sudan—Application for Membership
   (Fund Document No. 4)
7. Dominican Republic—Quota Adjustment
   (Fund Document No. 5)
8. Place and Date of Twelfth Annual Meeting
9. Election of Officers and Procedures Committee for 1956-57

Annex II

COMMITTEE ON FINANCE AND ORGANIZATION

Chairman.................... Norway
Vice-Chairman................. Paraguay
Reporting Member............. Japan

Other Members: Australia, Ceylon, Chile, China, Colombia, Egypt, Ethiopia, France, Federal Republic of Germany, Honduras, India, Israel, Luxembourg, Pakistan, the United Kingdom, and the United States

Annex III

COMMITTEE ON FINANCE AND ORGANIZATION

Terms of Reference[1]

1. Chapter VIII of the Eleventh Annual Report
2. Financial Statements and Report on Audit
   (Appendix IX of Eleventh Annual Report and
   Fund Document No. 2)
3. Administrative Budget
   (Appendix VIII of Eleventh Annual Report)[2]
4. Changes in Rules and Regulations
   (Fund Document No. 3)[3]
5. Republic of the Sudan–Application for Membership
   (Fund Document No. 4)[4]

Annex IV

INFORMAL DISCUSSION[5]

Subject of Discussion

RECENT DEVELOPMENTS IN MONETARY ANALYSIS

Chairman: Ivar Rooth, Managing Director,
International Monetary Fund

Principal Speakers:

Dr. Paolo Baffi, Economic Adviser to Banca d'Italia

Dr. M. W. Holtrop, President of De Nederlandsche Bank

Mr. Ralph A. Young, Director of Research and Statistics, Federal Reserve Board, Washington

[1] The items on the agenda of the Committee are the same as those listed here. The agenda was issued as Committee on Finance and Organization Document No. 2.

[2] And Committee on Finance and Organization Document No. 1.

[3] Page 118.

[4] Page 120.

[5] Held on Tuesday, September 25, 1956, at 3:30 p.m. The papers presented by the principal speakers and the background paper on Monetary Analysis prepared by the Fund staff are reprinted in *Staff Papers,* Vol. V, No. 3.

Annex V

SCHEDULE

(As Revised)

SATURDAY, September 22

4:30 p. m.—Joint Procedures Committee

MONDAY, September 24

10:00 a. m.—Opening Address by Chairman
Opening Session (Joint)

11:30 a. m.—Fund Board: Annual Address—
Managing Director of Fund

12:30 p. m.—Fund Committee on Finance and Organization

3:30 p. m.—International Finance Corporation
Board of Governors—Inaugural Meeting

TUESDAY, September 25

10:00 a. m.—Bank Board: Annual Address—
President of Bank

11:00 a. m.—Bank Board: Annual Report Discussion

12:30 p. m.—Bank Committee on Finance and Organization

3:30 p. m.—Fund Board: Informal Discussion

WEDNESDAY, September 26

10:00 a. m.—Fund Board: Annual Report Discussion

3:30 p. m.—Fund Board: Annual Report Discussion
(Continued)

THURSDAY, September 27

10:00 a. m.—Bank Board: Informal Discussion
3:00 p. m.—Fund Board: Managing Director's Comments
Committee Reports
Election of Executive Directors

4:30 p. m.—Bank Board: President's Comments
Committee Reports
Election of Executive Directors

FRIDAY, September 28

9:30 a. m.—Joint Procedures Committee

11:00 a. m.—Joint Session—Report of Procedures Committee
Address by President of the United States
Closing Session (Joint)

All Board sessions will be held in Sheraton Hall.

All Committee sessions will be held in the Burgundy Room.

Annex VI

PROVISIONS RELATING TO THE CONDUCT OF THE MEETING

Attendance

1. All Sessions of the Boards of Governors of the Fund and the Bank, including Joint Sessions and the informal discussions, shall be open to the press and invited guests, unless otherwise decided. Committee meetings shall be closed.

2. Meetings of the Joint Procedures Committee shall be open only to the Governor and Alternate Governor and one adviser for each member country on the Committee.

3. Committee meetings, with the exception of Joint Procedures Committee meetings, shall be open to Delegations who are not Committee members.

4. Accredited observers may attend all Sessions of the Boards of Governors and their Committees, other than the Joint Procedures Committee, unless decided otherwise. Observers wishing to speak at a meeting are requested to consult the Secretaries in advance.

5. 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

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

Records

7. The Secretaries of the Fund and the Bank are authorized to prepare verbatim transcripts of the proceedings of Sessions of the Boards of Governors and their Committees, and of informal discussions. The transcripts of Committee proceedings, and any summary records thereof, will be confidential and available only to the Chairman, the Managing Director of the Fund and the President of the Bank, unless otherwise decided.

8. Reports of Committees shall be signed by the Committee Chairman and the Reporting Member.

Report No. 2

September 28, 1956

Sir:

I have the honor to submit the Report of the Procedures Committee on its second meeting which was held this morning.

I. *Place and Date of Twelfth Annual Meeting*

The Committee recommends that the Twelfth Annual Meeting be convened in Washington, preferably in the second half of September 1957.[1]

The Governor for India invited the Boards of Governors to hold the Thirteenth Annual Meeting in New Delhi in 1958. The Governor for the United States proposed that the Boards of Gov-

[1] Resolution No. 11-10, page 147.

ernors thank the Governor for India for his kind invitation but defer further consideration, and decision, concerning the place for holding the Thirteenth Annual Meeting, until the Twelfth Annual Meeting. The Governor for the United Kingdom supported this proposal, and the Committee so recommends.

II. *Officers*

The Committee recommends that the Governor for the Philippines be elected Chairman and the Governors for China, France, India, the United Kingdom and the United States be elected Vice-Chairmen of the respective Boards, to hold office until the election of officers at the close of the next Annual Meeting.[1]

III. *Joint Procedures Committee*

The Committee recommends that a Procedures Committee be established to be available after the termination of this Meeting, and until the selection of a new Procedures Committee at the next Annual Meeting, for consultation at the discretion of the Chairman, normally by correspondence, and also if occasion requires by convening immediately before the Annual Meeting of the Boards. The Committee further recommends that the Procedures Committee shall consist of the Governors for the Philippines, Chairman; Panama, Vice-Chairman; Austria, Reporting Member; and China, Ecuador, Finland, France, India, Syria, the Union of South Africa, the United Kingdom and the United States.[2]

Approved:

/s/
ANTONIO CARRILLO FLORES
(Mexico)
Chairman

/s/
SVEND NIELSEN
(Denmark)
Reporting Member

The Report was approved and the Resolutions adopted by the Boards of Governors at Session No. 6, September 28, 1956.

[1] Resolution No. 11-11, page 147.
[2] Resolution No. 11-12, page 147.

COMMITTEE ON FINANCE AND ORGANIZATION

Chairman . . . . Norway
Vice-Chairman . . . . Paraguay
Reporting Member . . . . Japan

Other Members: Australia, Ceylon, Chile, China, Colombia, Egypt, Ethiopia, France, Federal Republic of Germany, Honduras, India, Israel, Luxembourg, Pakistan, the United Kingdom, and the United States

REPORT TO THE BOARD OF GOVERNORS OF THE FUND

September 26, 1956

Mr. Chairman:

I have the honor to report that the Committee on Finance and Organization met at 12:30 p.m. on Monday, September 24, 1956, under the Chairmanship of the Governor for Norway, to consider the five items on the agenda[1] referred to it. On behalf of the Committee, I submit the following Report and recommendations with respect to each of these items.

Chapter VIII of the Eleventh Annual Report

The Committee had no comments on Chapter VIII of the Annual Report dealing with matters of membership, organization, and administration.

Financial Statements, Report on Audit, and Administrative Budget

The Committee considered the Report on Audit for the Fiscal Year ended April 30, 1956, the Financial Statements contained therein (Fund Document No. 2 and Appendix IX of the Eleventh Annual Report), and the Administrative Budget for the Fiscal Year ending April 30, 1957 (Appendix VIII of the Annual Report).

The Managing Director stated that during the last fiscal year several senior staff vacancies had been filled by promotions from

[1] Committee Terms of Reference, page 125.

within and that the nationality distribution of the staff had been further extended. The staff now included nationals of 46 countries. Because of repurchases and the limited number of new drawings, the Fund's income had been less than in the previous year. It was expected that with the supplemental income derived from the investment of a limited portion of the Fund's gold in United States Treasury bills and the other income of the Fund there should be no operating deficit in the current fiscal year. He also noted that the Fund had begun to erect its headquarters building on a site adjacent to 1818 H Street.

The Governors for the United States and the United Kingdom commended the management on the efficient administration of the Fund during the past year.

In the name of the Committee, I have the honor to recommend to the Board of Governors the adoption of the draft resolution on the Financial Statements, Report on Audit, and Budget attached hereto as Annex I.[1]

Rules and Regulations

The Committee also reviewed the amendments to Rules I-2 and I-4(f) of the Rules and Regulations as submitted by the Executive Directors (Fund Document No. 3).[2]

In the name of the Committee, I have the honor to recommend the adoption by the Board of Governors of the draft resolution attached hereto as Annex II[3] notifying the Executive Directors that it has reviewed the amendments and has no changes to suggest.

Membership for the Republic of the Sudan

Finally, the Committee considered the recommendations of the Executive Directors regarding the application of the Government of the Republic of the Sudan for membership in the Fund (Fund

[1] Resolution No. 11-7, page 143.
[2] Page 118.
[3] Resolution No. 11-8, page 143.

Document No. 4).[1] The Governors for Pakistan, the United Kingdom and the United States welcomed the application of the Republic of the Sudan and supported its membership in the Fund. The Committee agreed to recommend to the Board of Governors that the Republic of the Sudan be admitted to membership in the Fund under the terms and conditions recommended by the Executive Directors.

On behalf of the Committee, I submit the draft resolution set forth in Annex III[2] of this Report for adoption by the Board of Governors.

Approved:

/s/	/s/
Erik Brofoss	Hisato Ichimada
(Norway)	(Japan)
Chairman	Reporting Member

The Report was approved and the draft resolutions adopted by the Board of Governors at Session No. 5, September 27, 1956.

[1] Page 120.

[2] Resolution No. 11-9, page 144.

RESOLUTIONS

Resolution No. 11-1

Membership for the Republic of Viet-Nam

Under date of December 21, 1955, the Government of the Republic of Viet-Nam applied for membership in the Fund. The Executive Board resolved on May 23, 1956, 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 28, 1956, for a vote without meeting:

WHEREAS, the Government of the Republic of Viet-Nam on December 21, 1955 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 the Republic of Viet-Nam to membership in the Fund;

NOW, THEREFORE, the Board of Governors, having considered the recommendations of the Executive Directors, hereby resolves that the terms and conditions upon which the Republic of Viet-Nam 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 the Republic of Viet-Nam shall be $12,500,000.

3. *Subscription:* The subscription of the Republic of Viet-Nam shall be equal to its quota, and not less than 25 per cent of the subscription shall be paid in gold and the balance in the currency of the Republic of Viet-Nam.

4. *Payment of Subscription:* The portion of the subscription to be paid in gold shall be paid not later than the day the Articles are signed on behalf of the Republic of Viet-Nam. In case the Republic of Viet-Nam does not acquire membership in the Fund the gold so paid shall be returned to it by the Fund. The remaining part of the subscription which has not been paid in gold shall be paid before the thirtieth day after the initial par value of the currency of the Republic of Viet-Nam has been agreed in accordance with paragraph 5 below.

5. *Determination of Par Value:* Within 30 days after the Fund so requests, the Republic of Viet-Nam shall communicate to the Fund a proposed par value for its currency, and within 60 days following the Fund's receipt of the proposed par value, the Republic of Viet-Nam and the Fund shall agree on an initial par value for the currency; provided that the Fund may extend the period of 60 days and that the Republic of Viet-Nam shall be deemed to have withdrawn from the Fund if agreement on a par value has not been reached when the extended period expires. In the period between accepting membership and the establishment of an initial par value pursuant to this paragraph, the Republic of Viet-Nam shall not change its exchange rates prevailing at the time of accepting membership without agreement with the Fund after prior consultation.

6. *Exchange Transactions with the Fund:* The Republic of Viet-Nam may not engage in exchange transactions with the Fund before the thirtieth day after the par value of its

currency has been agreed in accordance with paragraph 5 above and its subscription has been fully paid.

7. *Representation and Information:* Before accepting membership in the Fund, the Republic of Viet-Nam shall represent to the Fund that it has taken all action necessary to sign and deposit the Instrument of Acceptance and sign the Articles, as contemplated by paragraph 8(a) and (b) of this Resolution, and the Republic of Viet-Nam 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 Goverment of the United States of America that the Republic of Viet-Nam has complied with the conditions set forth in paragraph 7 of this Resolution, the Republic of Viet-Nam shall become a member of the Fund as of the date when the Republic of Viet-Nam shall have complied with the following requirements:

    (a) The Republic of Viet-Nam shall deposit with the Government of the United States of America an instrument stating that it has accepted in accordance with its law the Articles and all the terms and conditions prescribed in this Resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this Resolution; and

    (b) The Republic of Viet-Nam 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:* The Republic of Viet-Nam may accept membership in the Fund pursuant to this Resolution until December 31, 1956; 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 25, 1956.

The Articles of Agreement were signed by His Excellency Tran Van Chuong, Ambassador of the Republic of Viet-Nam to the United States of America, on behalf of the Government of the Republic of Viet-Nam on September 21, 1956.

Resolution No. 11-2

Increase in Quota for Ecuador

On April 27, 1956, the Fund received from the Government of Ecuador a request for an increase in its quota in the Fund from $5 million up to $15 million. The Executive Board resolved on June 11, 1956, that action on the request should not be postponed until the next regular meeting of the Board of Governors.

In accordance with Section 13 of the By-Laws, the following Resolution was submitted to the Governors on June 18, 1956, for a vote without meeting:

RESOLVED:

That the quota of Ecuador shall be changed to $10 million, provided that Ecuador consents to the change on or before September 14, 1956. Not less than 25 per cent of the increase shall be paid in gold and the balance in the currency of Ecuador. The change shall become effective on the date the Fund receives notice in writing that Ecuador consents to the change but not sooner than the date of this Resolution. Such written consent shall be signed by a competent official whose authority and signature are duly authenticated.

The increase in the quota of Ecuador was approved by the Board of Governors on July 16, 1956. The written notice that Ecuador consented to the increase was received by the Fund on August 8, 1956, at which date the new quota became effective.

Resolution No. 11-3

Membership for the Argentine Republic

Under date of May 15, 1956, the Government of the Argentine Republic applied for membership in the Fund. The Executive Board resolved on July 2, 1956, 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 July 11, 1956, for a vote without meeting:

WHEREAS, the Government of the Argentine Republic on May 15, 1956, 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 the Argentine Republic to membership in the Fund;

NOW, THEREFORE, the Board of Governors, having considered the recommendations of the Executive Directors, hereby resolves that the terms and conditions upon which the Argentine

Republic 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 the Argentine Republic shall be $150,000,000.
3. *Subscription:* The subscription of the Argentine Republic shall be equal to its quota, and not less than 25 per cent of the subscription shall be paid in gold and the balance in the currency of the Argentine Republic.
4. *Payment of Subscription:* The portion of the subscription to be paid in gold shall be paid not later than the day the Articles are signed on behalf of the Argentine Republic. In case the Argentine Republic does not acquire membership in the Fund the gold so paid shall be returned to it by the Fund. The remaining part of the subscription which has not been paid in gold shall be paid before the thirtieth day after the initial par value of the currency of the Argentine Republic has been agreed in accordance with paragraph 5 below.
5. *Determination of Par Value:* Within 30 days after the Fund so requests, the Argentine Republic shall communicate to the Fund a proposed par value for its currency, and within 60 days following the Fund's receipt of the proposed par value, the Argentine Republic and the Fund shall agree on an initial par value for the currency; provided that the Fund may extend the period of 60 days and that the Argentine Republic shall be deemed to have withdrawn from the Fund

if agreement on a par value has not been reached when the extended period expires. In the period between accepting membership and the establishment of an initial par value pursuant to this paragraph, the Argentine Republic shall not change its exchange rates prevailing at the time of accepting membership without agreement with the Fund after prior consultation.

6. *Exchange Transactions with the Fund:* The Argentine Republic may not engage in exchange transactions with the Fund before the thirtieth day after the par value of its currency has been agreed in accordance with paragraph 5 above and its subscription has been fully paid.

7. *Representation and Information:* Before accepting membership in the Fund, the Argentine Republic shall represent to the Fund that it has taken all action necessary to sign and deposit the Instrument of Acceptance and sign the Articles, as contemplated by paragraph 8(a) and (b) of this Resolution, and the Argentine Republic shall furnish to the Fund such information in respect of such action as the Fund may request.

8. *Acceptance of Membership:* After the Fund shall have informed the Government of the United States of America that the Argentine Republic has complied with the conditions set forth in paragraph 7 of this Resolution, the Argentine Republic shall become a member of the Fund as of the date when the Argentine Republic shall have complied with the following requirements:

   (a) The Argentine Republic shall deposit with the Government of the United States of America an instrument stating that it has accepted in accordance with its law the Articles and all the terms and conditions prescribed in this Resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this Resolution; and

(b) The Argentine Republic 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:* The Argentine Republic may accept membership in the Fund pursuant to this Resolution until February 15, 1957; 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 August 8, 1956.

The Articles of Agreement were signed by His Excellency Adolfo A. Vicchi, Ambassador of the Argentine Republic to the United States of America, on behalf of the Government of the Argentine Republic on September 20, 1956.

Resolution No. 11-4

Increase in Quota for Nicaragua

On June 11, 1956, the Fund received from the Government of Nicaragua a request for an increase in its quota in the Fund from $2 million to $8 million. The Executive Board resolved on July 18, 1956, that action on the request should not be postponed until the next regular meeting of the Board of Governors.

In accordance with Section 13 of the By-Laws, the following Resolution was submitted to the Governors on July 24, 1956, for a vote without meeting:

RESOLVED:

That the quota of Nicaragua shall be changed to $7.5 million, provided that Nicaragua consents to the change on or before October 22, 1956. Not less than 25 per cent of the increase shall be paid in gold and the balance in the currency of Nicaragua. The change shall become effective on the date the Fund receives notice in writing that Nicaragua consents to the change but not sooner than the date of this Resolution. Such written consent shall be signed by a competent official whose authority and signature are duly authenticated.

The increase in the quota of Nicaragua was approved by the Board of Governors on August 21, 1956, and the new quota of $7.5 million became effective on October 17, 1956, the date on which the consent of the Government of Nicaragua was received by the Fund.

Resolution No. 11-5

Sixth Regular Election of Executive Directors[1]

RESOLVED:

1. That the Report of the Executive Directors of the Fund, dated September 22, 1956, regarding the Sixth Regular Election of Executive Directors[2] is hereby approved.

2. That the proposed Rules for the Conduct of the Sixth Regular Election of Executive Directors, attached as Appendix II[3] to said Report of the Executive Directors, are hereby adopted as the Rules for the Conduct of the Election.

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[1] Recommended by the Procedures Committee (Report No. 1, page 121) and adopted by the Board of Governors at Session No. 1, September 24, 1956. The election was held at Session No. 5, September 27, 1956. The names of the elected Executive Directors appear on page 115.

[2] Page 104.

[3] Page 107.

3. That the Seventh Regular Election of Executive Directors shall take place at the Annual Meeting of the Board of Governors in 1958.

Resolution No. 11-6

Increase in Quota for the Dominican Republic[1]

RESOLVED:

That the quota of the Dominican Republic shall be changed to US$10 million, provided that the Dominican Republic consents to the change on or before November 27, 1956. Not less than 25 per cent of the increase shall be paid in gold and the balance in the currency of the Dominican Republic. The change shall become effective at the time the Fund receives notice in writing that the Dominican Republic consents to the change but not sooner than the adoption of this Resolution. Such written consent shall be signed by a competent official whose authority and signature are duly authenticated.

The new quota of $10 million became effective on September 25, 1956, the date on which the consent of the Government of the Dominican Republic was received by the Fund.

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[1] Recommended by the Procedures Committee (Report No. 1, page 121) and adopted by the Board of Governors at Session No. 1, September 24, 1956. The recommendations of the Executive Board may be found on page 117.

Resolution No. 11-7

Financial Statements, Report on Audit and Administrative Budget[1]

RESOLVED:

That the Board of Governors of the Fund considers the Report on Audit for the Fiscal Year ended April 30, 1956, the Financial Statements contained therein,[2] and the Administrative Budget for the Fiscal Year ending April 30, 1957,[3] as fulfilling the requirements of Article XII, Section 7, of the Articles of Agreement and Section 20 of the By-Laws.

Resolution No. 11-8

Amendments to Rules and Regulations[1]

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[4] adopted by the Executive Board since the Tenth Annual Meeting and has no changes to suggest.

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[1] Recommended by the Committee on Finance and Organization (page 130) and adopted by the Board of Governors at Session No. 5, September 27, 1956.

[2] Fund Document No. 2 and Appendix IX of the Eleventh Annual Report.

[3] Appendix VIII (ii) of the Eleventh Annual Report and Committee on Finance and Organization Document No. 1.

[4] Page 118.

Resolution No. 11-9

Membership for the Republic of the Sudan[1]

WHEREAS, the Government of the Republic of the Sudan on June 20, 1956, 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 the Republic of the Sudan to membership in the Fund;

NOW, THEREFORE, the Board of Governors, having considered the recommendations of the Executive Directors,[2] hereby resolves that the terms and conditions upon which the Republic of the Sudan 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 the Republic of the Sudan shall be $10,000,000.

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[1] Recommended by the Committee on Finance and Organization (page 130) and adopted by the Board of Governors at Session No. 5, September 27, 1956.

[2] Page 120.

3. *Subscription:* The subscription of the Republic of the Sudan shall be equal to its quota, and not less than 3.5 per cent of the subscription shall be paid in gold and the balance in the currency of the Republic of the Sudan.

4. *Payment of Subscription:* The portion of the subscription to be paid in gold shall be paid not later than the day the Articles are signed on behalf of the Republic of the Sudan. In case the Republic of the Sudan does not acquire membership in the Fund the gold so paid shall be returned to it by the Fund. The remaining part of the subscription which has not been paid in gold shall be paid before the thirtieth day after the initial par value of the currency of the Republic of the Sudan has been agreed in accordance with paragraph 5 below.

5. *Determination of Par Value:* Within 30 days after the Fund so requests, the Republic of the Sudan shall communicate to the Fund a proposed par value for its currency, and within 60 days following the Fund's receipt of the proposed par value, the Republic of the Sudan and the Fund shall agree on an initial par value for the currency; provided that the Fund may extend the period of 60 days and that the Republic of the Sudan shall be deemed to have withdrawn from the Fund if agreement on a par value has not been reached when the extended period expires. In the period between accepting membership and the establishment of an initial par value pursuant to this paragraph, the Republic of the Sudan shall not change its exchange rates prevailing at the time of accepting membership without agreement with the Fund after prior consultation.

6. *Exchange Transactions with the Fund:* The Republic of the Sudan may not engage in exchange transactions with the Fund before the thirtieth day after the par value of its currency has been agreed in accordance with paragraph 5 above and its subscription has been fully paid.

7. *Representation and Information:* Before accepting membership in the Fund, the Republic of the Sudan shall represent to the Fund that it has taken all action necessary to sign and deposit the Instrument of Acceptance and sign the Articles, as contemplated by paragraph 8(a) and (b) of this Resolution, and the Republic of the Sudan shall furnish to the Fund such information in respect of such action as the Fund may request.

8. *Acceptance of Membership:* After the Fund shall have informed the Government of the United States of America that the Republic of the Sudan has complied with the conditions set forth in paragraph 7 of this Resolution, the Republic of the Sudan shall become a member of the Fund as of the date when the Republic of the Sudan shall have complied with the following requirements:

   (a) The Republic of the Sudan shall deposit with the Government of the United States of America an instrument stating that it has accepted in accordance with its law the Articles and all the terms and conditions prescribed in this Resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this Resolution; and

   (b) The Republic of the Sudan 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:* The Republic of the Sudan may accept membership in the Fund pursuant to this Resolution until March 31, 1957; 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. 11-10

Place and Date of Twelfth Annual Meeting[1]

RESOLVED:

That the Chairman shall convene the Twelfth Annual Meeting of the Board of Governors of the International Monetary Fund in Washington, D. C., preferably in the second half of September 1957.

Resolution No. 11-11

Officers of Board of Governors[1]

RESOLVED:

That the Governor for the Philippines is hereby elected Chairman and the Governors for China, France, India, the United Kingdom, and the United States are hereby elected Vice-Chairmen of the Board of Governors of the International Monetary Fund to hold their respective offices until the election of officers of the International Monetary Fund takes place at the close of the next Annual Meeting.

Resolution No. 11-12

Composition of Procedures Committee[1]

RESOLVED:

That a Procedures Committee be hereby established, to be available after the termination of this Meeting and until the selection

[1] Recommended by the Procedures Committee (Report No. 2, page 128) and adopted by the Board of Governors at Session No. 6, September 28, 1956.

of officers of the International Monetary Fund takes place at the next Annual Meeting, for consultation at the discretion of the Chairman normally by correspondence and also if occasion requires by convening immediately before the Annual Meeting of the Board. The Procedures Committee shall consist of the Governors for the following members:

Austria, China, Ecuador, Finland, France, India, Panama, the Philippines, Syria, the Union of South Africa, the United Kingdom, and the United States.

The Chairman, Vice-Chairman and Reporting Member shall be the Governors for the Philippines, Panama and Austria, respectively.

SELECTED ADDRESSES DELIVERED DURING THE OPENING JOINT SESSION[1]

Address by the Governor for the United States

George M. Humphrey

Washington is a long way from the romantic scenes along the Bosporus and the Golden Horn, where last we met. It is hard for us here to rival the scenery and the warm hospitality which we all enjoyed there, but I again welcome you most cordially to Washington. I hope you will all have a pleasant visit. We look forward to participating with you in these meetings and to the opportunity of meeting to discuss our mutual problems with you personally.

At this opening meeting we should like to express our appreciation of the work of the International Monetary Fund and of the International Bank during the past year. And we are pleased to welcome Argentina and Viet-Nam as new members.

The Fund has continued its valuable work with its member countries in quietly and effectively reviewing with them their monetary and financial policies and working with them to remove unnecessary governmental restrictions. It has provided valuable technical advice and assistance, as well as temporary financial aid where that was required.

The Bank has recorded another outstanding year of constructive help to its members in financing economic development and in encouraging the participation of private capital in its activities. We join with others in welcoming the establishment of the International Finance Corporation, which, we believe, is a very hopeful experiment in getting private investors to join as partners in providing an enlarged flow of venture capital to private enterprises in the member countries.

We congratulate Mr. Rooth, Mr. Black, and Mr. Garner for their leadership and we particularly would like to express to Mr. Rooth, who is ending his term as Managing Director, our warm appreciation for his devoted and distinguished service to the Fund and our very best wishes to him for the future.

[1] Session No. 1, September 24, 1956.

The basic problems which confront us in most of our countries are the economic and financial problems arising—happily—out of high prosperity in a world at peace. It might seem surprising that peace and prosperity should cause trouble for Finance Ministers and Central Bank Governors. These present troubles of ours are much more bearable than those of depression or war. They are, nevertheless, very real. These problems arise from the insistent and conflicting demands on available resources in each country. The question, in a few words, is how to finance both needed defense and high prosperity without inflation.

It is our task to balance the demands for defense, high consumption, and for further economic development against available resources. We have to steer as best we can the difficult and often unmarked channel between the whirlpool of inflation and the rocks of deflation.

We who are gathered here—Ministers of Finance and Central Bank Governors—have a very special responsibility to the people of our countries. We are the trustees of the value of our people's work and skill, which is to say, the value of their money. We are responsible for the value of their wages and salaries, their savings accounts, their pensions and insurance policies, and the other investments they make to provide for the future. This is a sobering responsibility and trusteeship. The average citizen cannot defend himself against the terrible hardships of inflation.

Inflation brings with it grave social injustices and instability. It destroys not only the value of savings but also confidence, security, and social values. Inflation is the cruelest form of theft —a theft with greatest harm to those least able to protect themselves. Inflation results in the destruction of the value of money. It is attractive only to those unwise politicians and others who are willing to sacrifice long-term good for unreal but falsely apparent immediate gain.

We here have a special trusteeship, additionally, because inflation destroys the incentive to save and to invest funds. Without such saving and investment in productive enterprise, we cannot have the growing and dynamic economies from which can come more and better jobs and higher standards of living for our growing populations.

It is far too little realized what an important contribution good

money—money which people can trust—makes to the soundness of a nation. Confidence in the value of money is one of the greatest spurs to economic progress because it is an incentive to save, and it is our people's savings over the years—large and small savings alike—which have built up our countries.

This is the trusteeship which we have—to avoid inflation. In this, we are the trustees of the people and the future of our countries. We are the trustees for continued growth and continued peace and prosperity of our people.

We in the United States responsible for the Government's financial and economic policies have tried to continue to discharge wisely this trusteeship and this responsibility. We have brought the budget into balance. We have freed the economy from artificial restraints and allowed monetary policy to operate for the public good. We can fairly report that, although we are not free from problems, we have had substantial success. Employment is at the highest level in our history. National production is establishing new records. The cost of living has moved within a very narrow range. Confidence is high and savings are growing. This job of nourishing a dynamic U.S. economy, while also maintaining the U.S. dollar as a strong and reliable currency in the world, must be carried forward. This is not only a duty to ourselves; it is an important contribution to all of you, our friends from abroad.

Many of you have similar problems. We have been pleased to see so many of the free world economies grow and strengthen during the past year. It is our hope and belief that the interchange of views in these meetings will give us all greater courage and inspiration in our essential tasks and that the Fund and the Bank will continue to render effective aid at many key points.

Address by the Governor for Iran

Ali Asghar Nasser

It gives me great pleasure indeed to visit once again the beautiful and hospitable city of Washington, to find an opportunity to renew old acquaintances, and to see so many old friends at the

World Bank and the International Monetary Fund, as well as other colleagues from the banking centers of the world. I am also deeply grateful for the hospitality and the warm reception accorded us by the city authorities.

May I avail myself of this opportunity to express my appreciation of the ever-increasing success of the Bank and the Fund and to congratulate Mr. Eugene Black and Mr. Ivar Rooth for their admirable organizing ability and foresight which have brought these two institutions to the forefront of international financial organizations.

The valuable lead given by the Fund has indeed paved the way toward the essential aims which are convertibility and freedom of trade. I am very glad to state that Iran has taken long strides toward obtaining that goal by following the Fund's precepts and establishing a single rate of exchange for various transactions.

We have not only abolished the system of categories for imports, thus bringing all imports under a unified rate of exchange, but have succeeded in extending it to all noncommercial payments as well. As a result, the multiple rates system which was previously in force in Iran has been eliminated.

Greater facilities and more extensive freedom are also provided for our foreign trade, and the physical limitations on imports have largely been removed.

Following the recommendations of the Fund, my country is studying the possibility of doing away with bilateral and clearing agreements insofar as such an action could be deemed compatible with the economic exigencies of the country and would not impede the flow of certain essential commodities from economically appropriate sources.

The Iranian Government and the central bank are also studying the possibility of revising old laws concerning exchange transactions and of adopting a less restricted policy in line with the present economic conditions.

I wish to put on record our thanks to the Fund for placing at our disposal facilities, including stand-by credits, which we might require for the successful pursuit of these liberalizing policies.

Address by the Governor for Pakistan

Syed Amjad Ali[1]

May I express my happiness in seeing you chairing this very important and distinguished gathering of leaders in the field of banking and finance. I missed the Istanbul Meeting and, therefore, was not present to offer my congratulations to you at your election to this high office. I may, however, say that the good wishes of your friends all over the world were with you because they knew of your great merit and were sure of your ability as an excellent Chairman.

I had the privilege of making my debut to the Annual Meetings in Paris in 1950. Much water has flowed, and continues to flow, over and under many an international bridge. Turbulent, murky, muddy, and clear has been the cycle of the streams of international politics. The bridges have held, though some of the embankments have eroded and the foundations shaken. So, the world has been able to prevent war though it has not succeeded in winning the peace—an achievement not perfect, yet not to be belittled either.

In the field of economics, the record is somewhat better. The International Monetary Fund has been able to secure international cooperation in the field of exchange stability. The International Bank has not only helped in reconstructing the war-shattered economies but spearheaded economic development of the lesser developed areas. The over-all effect has been impressive in the highly developed countries but not so inspiring in the underdeveloped. There, the increase in real incomes has been very low; economic disparities between nations tend to grow wider. Not only the flow of international capital on which so essentially depends a high level of economic activity has been very inadequate, but certain disequilibrating factors, such as fluctuations in commodity prices and adverse terms of trade, appear persistently to neutralize the effect of productive investments. These are some of the questions which require increasing attention for the achievement of more stable conditions.

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[1] Syed Amjad Ali is Governor of the International Bank for Reconstruction and Development for Pakistan.

The Fund, with its large and liquid resources, could possibly follow a more flexible policy in making medium-term loans available to member countries in order to enable them to cushion more effectively the adverse effects of fluctuations in export earnings as also for meeting the inflationary strains of larger investments. In a more technical field, the Fund might also consider whether it could not function as a clearing house for international exchange settlements. The International Bank, with its expanded resources, reorganization of its able management, establishment of the International Finance Corporation, its wide and useful experience in the problems of the member countries, can play a more dynamic role in accelerating the development and thus arresting the trends I have mentioned earlier.

To my mind, the most important development in the past few years has been the emergence of the concept of the sharing of prosperity. This great country—our host, the United States—has been in the vanguard of this sublime thinking. It has acted with great generosity. It is stimulating the minds of the great and the humble, the giants and the dwarfs to realize this wonderful concept. With the rapid advance of science and technology, the horizons are shifting and the firm lines are receding, offering an opportunity to the big to become bigger in sharing their prosperity as partners with hundreds of millions who are still backward and poor.

Address by the Governor for Brazil[1]

Jose Maria Alkmim

Some of my colleagues on the Boards have been Governors of the Fund and the Bank for many years, in a few instances going back to the First Meeting of the Boards in 1946. It would be presumptuous of me, a newcomer, to speak with authority of the complex problems that confront the Fund and the Bank and their member countries in all parts of the world. On the other hand, I think that what I have to say regarding the problems of Brazil and their relation to the Fund will be of some interest to other countries.

[1] Delivered in Portuguese.

Brazil has been doing business with the International Monetary Fund for a long time. I can say, on behalf of my country, that we regard our relations with the Fund as of incalculable value. They have been marked by a spirit of confidence and understanding on the part of the Fund which we hope we have merited and for which we shall always be grateful.

On seven different occasions you have lent us foreign exchange —dollars and sterling—amounting in all to $168.5 million. Of this, we have already repaid $103 million and we expect to repay the remainder within the usual period for such transactions.

We have had useful technical help from the Fund. About three years ago, Brazil had accumulated arrears in payments for imports amounting to about $600 million. It took a year for exporters to receive payments for the goods they sold. On the advice of the Fund, we established a prompt remittance system. Now, every exporter is paid on time for goods sold to Brazil. Furthermore, everyone is able to remit profits and other nontrade payments through the free market.

I do not want to pretend that Brazil is not confronted with difficult problems. At present, our payments position is relatively good. Our exports are large and world markets are favorable. Nevertheless, our position is vulnerable because of the large and unpredictable changes that take place in the price of coffee. We hope that, in time, some means will be found to deal with this problem. In the meantime, we hope that something can be done along the lines suggested by Mr. Rooth to minimize the impact of large fluctuations in the export receipts of the coffee producing countries.

It is not possible for me to say that our internal monetary position is satisfactory. We are confronted with a difficult inflation problem. In Brazil, as elsewhere, there is great pressure for higher wages and that has been one cause of inflation. The deficit in the budget has been large and that is another cause of inflation. The Government of Brazil is aware of the dangers that this presents to the orderly development of the economy. Special efforts are being made to reduce the budgetary deficit and I think we shall be able to cut the deficit by half. Bank credit has been re-

stricted severely. If we can slow down and then stop the rise in prices, we are confident that we can establish the wage, budget and credit policies necessary for monetary stability.

The Government of Brazil is determined to bring an end to the inflation that has been going on for 20 years. This is extremely difficult in a country which is in the midst of development. The fact is that, because domestic savings and capital inflow are not adequate for the investment we are able to undertake, there is steady pressure to rely on budgetary deficits and excessive expansion of bank credit. We have had help from the Export-Import Bank; we believe that foreign capital will come into Brazil on a larger scale. Under any circumstances, we shall do our best to follow the advice of the Fund. I hope that at next year's Annual Meeting Brazil will be able to report real progress in securing development with stability.

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