CHAIRMAN'S OPENING ADDRESS[1]

Jean van Houtte

The honor you have done to Belgium in conferring upon it the chairmanship of this Meeting this year gives me the pleasurable privilege of paying tribute on your behalf to our host country and to its Government. The nobility of thought which characterizes the welcoming message of the eminent statesman who watches over the fortunes of this great country, augurs well for the atmosphere and success of our work.

I am also happy to welcome, in my name and in that of Mr. Ansiaux, our fellow Governors, their Alternates, and their advisers, as well as the representatives of other international organizations and the distinguished personalities who have come here to follow our meetings as observers or guests. I wish in particular to extend a warm welcome to the delegates of Malaya, Tunisia, Morocco, Spain, and Libya who are taking part for the first time in our discussions, since the countries they represent became members of our institutions during the course of the year. This broadening of the membership of our institutions is a cause of great satisfaction.

A journey to India, whose land has preserved some of the first historical evidence of civilization and whose people has contributed so much ever since to the progress of humanity, is indeed a significant experiment. I was looking forward to this first visit, and what I have seen in only a very few days has impressed me more than the scope of this address allows me to express.

No one can doubt that this great nation, with the riches of its original inheritance and the energy it shows in facing the challenge of our time, has a fruitful contribution to make to the new phase of growth our world is undergoing. Such contribution is needed and welcome.

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[1] At Joint Sessions of the Boards of Governors of the Fund and the Bank, the chair was taken by Mr. van Houtte, Chairman of the Board of Governors of the International Bank for Reconstruction and Development. Mr. Ansiaux presided at sessions of the Board of Governors of the Fund. This address was delivered at the Opening Joint Session, October 6, 1958.

Indeed, if anything should strike us today, in practically every field of activity, it is our interdependence and the need of solidarity which inspired so rightly the promoters of Bretton Woods and which is so convincingly illustrated by the particular problems that are our special responsibility.

Since we met last year, two events of our economic life have retained the attention of the scholars, the businessmen, the statesmen and, of course, of our institutions: the first of these events is the recession in the United States, which fortunately does not now seem likely to be so serious as was sometimes feared in some quarters and has not had abroad the repercussions which were apprehended; the second event is the slackening of prices of primary commodities which has so deeply affected countries producing them.

It is not my purpose to comment upon these events. In such circumstances, however, it may be opportune to reaffirm the interest of industrialized countries in the problems of the raw material producing economies, which in turn cannot be indifferent to the economic prosperity of the countries which constitute one main outlet for their products. And this is true, I believe, whether one considers the structural or the cyclical aspects of the problems we have to face. It is true not only when the difficulties can be attributed to imperfections in commercial or financial intercourse but also when they call for internal measures.

To say that the task of achieving the purpose of our institutions of securing a more prosperous world on a broader basis is a burden which falls upon each of us as well as on our community is not, of course, new. However, the annual reports which are submitted to us confirm it once more; and although much has been done and understanding has deepened, there is still room for progress.

May I, in this spirit, and speaking as a western European, living as such in one of the most industrialized parts of the world, stress, in these surroundings, the importance for the rest of the world of the efforts of development pursued by many of the less industrialized countries and the value we attach to their success.

May I also offer some comments in this respect, on some of the means or conditions which may increase our effectiveness in bringing about a successful development and in a field which well illustrates the important reactions that national policies can have abroad, that of private investment.

Clearly the desired expansion and diversification of production cannot be achieved unless the so-called underdeveloped countries have the benefit of substantial contributions of capital, the main source of which is to be found in industrial countries. In this regard I am sometimes disturbed by the tendency of looking too exclusively toward officially organized financial assistance. It is probably timely to emphasize the role of private capital and the importance of encouraging its movements.

Indeed, the assistance of international institutions and governments has proved useful, productive, and even indispensable. It is still required, in certain circumstances. The results of the activities of the Bank for Reconstruction and Development make us justifiably proud. The beginnings of the International Finance Corporation are very satisfactory and promising. We have also well in mind the remarkable help provided by the United States since the war, and one should note with interest and sympathy plans presently under study and designed to provide further official support for the development of such vast areas as Latin America and the Middle East. But, speaking generally and without wishing to be dogmatic, investments by governments and international institutions lend themselves primarily to the financing of projects one may describe as works of infrastructure, such as roads, transportation, energy, and so on. They are ill adapted to the needs of the diversified industries, the creation of which may require, in more advanced stages of development, an increasing proportion of available capital.

Information on international movements of private capital has been recently rather encouraging; it seems that exports of long-term capital in the calendar year 1957 were at their highest level since the war. But these movements remain relatively modest in comparison with the past. Also, they seem to be directed chiefly toward only a few countries and toward specific industries. I do not doubt, therefore, the need for an effort to create a climate that would be more favorable to the indispensable development of movements of private capital.

Emphasis has often been put on the importance of some specific measures that underdeveloped countries can take for this purpose—and that some of them have taken. Surely, some of these measures may be effective. Tax concessions, for example, while they entail only limited sacrifices, can be a powerful incentive to private investment.

I believe, however, that the true renaissance of the flow of private capital is dependent on two basic conditions.

The first is that the effort of development be made in such a way that private enterprise and initiative are encouraged, where appropriate. Planning is doubtless necessary, but it can be done from above without involving an intrusion by the state in all sectors of economic activity. In this connection, I should like to praise India which, while pursuing steadfastly, for ten years and despite extremely complex problems, a broad and varied program of development, has not lost sight of the need to seek a proper balance between the private and the public sectors of the economy.

Provided that an adequate field of action is left to it, private investment can and should play an increasingly important part, but it will do so only if no obstacle seems likely to prevent the repatriation of the capital or of the income from it to the country of origin. This is the second basic condition for the resumption and expansion of the international movements of private capital. The confidence of foreign investors will depend not only on formal guarantees offered by the borrowing country, but also on its ability and willingness to maintain a satisfactory equilibrium in its balance of payments or restore it whenever it is disturbed, so that in my opinion there is no more effective method available to a country which wishes to attract foreign private capital than to establish a liberal exchange system, based on the firm maintenance of conditions of internal and external monetary stability. Once again, the principles included in the purpose of the charter of the International Monetary Fund were sound and realistic.

It goes without saying that the importance of monetary stability for orderly economic development does not end with the incentive it gives to foreign exporters of private capital. It is also the key to the formation of larger amounts of internal savings. In addition, it opens the way for the liberalization of international trade and makes it possible to ensure the desired development within the framework of an open economy, that is, on a sound structural basis.

The governments of countries in process of development are certainly more and more convinced—and I believe that the activity of the Monetary Fund has made a significant contribution here—of the need for pursuing their efforts toward economic expansion within the framework of a system of international transactions that is as liberal as possible. Unfortunately, the effort to advance along this path has been recently hampered by a decline in these countries' export receipts due to the behavior of the world raw materials markets. I have already mentioned this problem, the complexity of which goes beyond the scope of this brief discourse. It seems obvious, however, that the drop in prices is not due entirely to changing economic conditions but is partly the result of a structural weakness underlying the market. The efforts at international cooperation by which producing countries try to establish a certain control over production are of great interest, although it seems to me too early to judge their effectiveness. We should remember, however, that if a stabilization or a reduction of output can help in solving the problem, the problem itself would be made much less intractable by an increase in the demand for the raw materials involved. Such increased demand is a by-product of the growth of industry. There is thus a manifest solidarity in the progress of developed and underdeveloped countries.

There is in any event something artificial about dividing countries sharply into these two types. Not only does the close interdependence of the two groups entail that any expansion or contraction in the economic activity of one of them reacts on that of the other, but development is a relative term: among the so-called developed countries, some are less developed than others, and even in the most developed countries, technological progress continuously calls for further development. In this connection, it is not without interest, I believe, to say a few words on the way in which the economies of the European countries have recovered and developed since the end of the war, and on the significance of this recovery and development for the rest of the world.

Europe came out of the war with a capital equipment that had been extensively damaged; what remained of it had become largely obsolete for lack of adequate replacement. In the immediate postwar years, therefore, Europe's main task was to bring back its productive capacity; while it was powerfully helped in this by the financial assistance it received from the United States and Canada, it had at the same time to make considerable calls on its own capital markets.

Reconstruction was remarkably fast; by 1949, the gross national product of the countries of the Organization for European Economic Cooperation had, at constant prices, exceeded the prewar figure. During the 1950's, the national product continued to rise without any break and at a fast rate; in 1957, it was half as large again as it had been eight years before, having increased by about 5 per cent a year on the average. Industrial output rose even more rapidly than the national product as a whole; in 1957, it was some 70 per cent higher than in 1949.

In my opinion, two points stand out when one considers this experience of Europe in the postwar years.

The first point is that, if such a rapid rate of recovery and development has been possible in postwar Europe, it is because in countries that have already reached a fairly advanced stage of development, national income and, therefore, savings are high, and ample resources are thus available for investments, the size of which largely determines the pace of development. Underdeveloped countries can, therefore, expect that their development will gather momentum with time, provided it has been carried out from the start in an orderly fashion.

The second point concerns the impact which the rapid increase in the national product of the OEEC countries must have had on the export trade of the underdeveloped countries.

The rise in industrial output has brought with it a great expansion in European imports. Disregarding intra-European trade and making no allowance for price movements, these imports have increased by more than 80 per cent since 1949. The imports from the underdeveloped countries have shared fully in this very considerable increase: at the present time, the OEEC countries of Europe are importing over $15 billion worth of goods a year from Latin America, Africa, and Asia outside Japan; the full significance of this figure will be appreciated when it is remembered that U.S. imports from these same areas fall short of $7 billion a year, already a very sizable figure. The OEEC countries of Europe rank, therefore, among the most important customers of the underdeveloped countries. The fact that their national product has risen sharply since the war and without undergoing wide cyclical fluctuations must, therefore, have had a favorable influence on the economies of these countries.

Because the postwar recovery and development have proceeded so rapidly in Europe, some funds have again become available there for investment overseas. Europe's activities in this field do not, of course, bear comparison with those of the United States, but some encouraging signs of progress deserve perhaps to be noted. A number of European countries have felt able to release their original subscription to the capital of the World Bank for use anywhere in the world, and more than a dozen European currencies have in fact been used for Bank loans; moreover, World Bank bonds have been widely sold in Europe. In addition to this indirect financing, there has been a steady flow of funds into the foreign branches and subsidiaries of European companies in Asia, Africa, and Latin America; and there has been extensive financing of trade—particularly of purchases of capital goods requiring finance over a period of years. There have also been more formal arrangements, such as the Colombo Plan. The amounts that could be spared were limited by the urgent home demands for credit, but in the aggregate a not inconsiderable contribution has been made by Europe toward meeting the capital needs of the underdeveloped areas.

I should next like to draw your attention to two or three features of the postwar recovery and development in Europe which seem to me significant for underdeveloped countries.

The first of these features is that the rapid development of the national product in Europe has taken place in a climate that can fairly be described as being, by and large, one of rather satisfactory monetary stability. This is not to say that rises in prices have not occurred in recent years; indeed, a number of countries have made it the chief aim of their monetary policy to bring greater stability to their price level. But what can, I think, be said is that the most damaging distortions that are usually associated with a severe inflation have not on the whole been present in Europe in the last few years. I believe that if inflationary pressures had been left free to develop wholly uncontrolled, the flow of capital from Europe to the outside world would have been very much smaller. There would have been a strong tendency for savings to be absorbed at home, often in wasteful ways. It is true that inflation would have enlarged the European demand for raw materials; but an inflation-stimulated market for the products of the underdeveloped areas would have been a transient and unhealthy market which sooner or later would have collapsed, disorganizing the prices of primary commodities. From the standpoint of the underdeveloped countries it was therefore fortunate that Europe's rapid development was achieved in a reasonably stable monetary framework.

The second feature to which I want to draw your attention is the dismantling of direct controls over production, consumption, and prices in Europe over the last few years. These controls have been or are being gradually replaced by effective monetary and fiscal policies, leaving markets free to make the small but numerous adjustments that contribute so powerfully and cumulatively to the development of high-output economies: extra output is obtained in the longer run when enterprise is given full scope to eliminate wastes and to adjust the flow of commodities to the needs of the market. The substitution of monetary and fiscal measures for physical controls in the last few years can therefore be regarded as having contributed in no small degree to the economic development of Europe.

A final feature which deserves mention consists in the efforts made by the European countries to liberalize their international trade and their external payments. In some cases, the liberalization measures have extended to trade and payments with all or most countries; one may quote in this connection the various steps taken to make European currencies more convertible or more transferable in line with the Articles of Agreement of the Fund, and the reductions in customs duties negotiated under the General Agreement on Tariffs and Trade. In other cases, the liberalization measures have applied only to intra-European trade and payments or to part of them; one example of this type of liberalization is the gradual abolition of quotas on the imports from OEEC countries. But even when the direct benefits of the liberalization measures have thus been confined to the European countries, their indirect benefits have been world-wide. For any liberalization measure between two or more countries broadens the market for their industries, and this broadening makes possible economies of large-scale production which in turn release resources that become available for an increase in national product. In this way, the liberalization of intra-European trade and payments that has already taken place and which may be expected to be carried still further in the future is bound to enlarge the demand for the products of non-European countries.

The general economic situation in the developed countries since the war has thus not been unfavorable to the underdeveloped countries, and it appears likely that the same will be true of the foreseeable future. This does not necessarily imply that all the problems with which the underdeveloped countries are faced will thereby be solved. Should such problems subsist, the developed countries will have to do their best to help the underdeveloped countries to deal with them. This they will have to do, first of all because, in all fairness, those countries that have reached an advanced stage of development should do what they can to help in solving the problems of the others. But they will also have to do it from sheer self-interest, because they cannot hope to pursue their prosperous course if raw material producing countries are unable to provide them with a market for a large part of their manufactured products.

Indeed, the essential lesson that can be learned from the events of the last few years is that we should become increasingly aware of how interdependent are our efforts and how necessary it is to coordinate them. The reports submitted to us, which retrace the active part played by the Monetary Fund, the World Bank, and the International Finance Corporation during the past year under the enlightened direction of those who are entrusted with their management, give us the assurance that our institutions are taking their full share in this cooperative effort.

Gentlemen, it remains for me to thank you for your friendly attention to the views I have just expressed. When I first considered the matters which could usefully be the subject of this speech, I was much tempted to include among them a question to which much attention has been paid in different quarters since we met last year and to which the staff of the Fund has contributed the interesting study we all received last month, the problem of international reserves and liquidity to which has been linked the question of the adequacy of the Fund and Bank resources. This question, however, is complex and would require more space than this address would permit and its preparation more time than I could have given to it. It is indeed important, but not easy, to define properly the scope of this problem and to place it in its proper perspective. It is equally important to examine carefully the adequacy of any course of action that might possibly be advisable to suggest. The problem no doubt deserves further study.

I thank you again, Gentlemen, and I now look forward with interest to our debate for which the Annual Reports of our Executive Directors supply ample material.