

## DISCUSSION OF FUND POLICY AT SECOND JOINT SESSION <sup>1</sup>

STATEMENT BY THE GOVERNOR OF THE FUND FOR BOLIVIA

*Carlos Alcoveza Melgarejo*

I should like to begin by expressing, on behalf of the Government of Bolivia, my congratulations to the International Monetary Fund and to the World Bank and its affiliates on the work they have accomplished, and also my thanks for the generous and cordial hospitality extended to us.

I have the honor to address this distinguished meeting for the purpose of informing it briefly, on behalf of the Government of Bolivia, of the struggle in which my country is engaged to achieve the goals of an adequate economic and social development. Compared with the other developing countries, Bolivia is confronted with special geographical, economic and social problems that have been retarding the progress to which it aspires. This situation, aggravated by a social anarchy in which party political interests prevailed over the interests of the nation as a whole and by the unconstructive actions of the trade union hegemony, which obstructed the conduct of public affairs and of private activities, has led to a change in Government which has placed the armed forces temporarily in power.

The new Government is convinced that all planning and constructive effort will be fruitless without the necessary re-establishment of social and political order and of discipline and, in general, a return to legality. In order to remedy this situation it has been necessary to take a number of drastic and unpopular measures that have required a tremendous sacrifice on the part of the nation and have resulted in a decline in the political prestige of the Government, but as a result of which it is possible to discern

---

<sup>1</sup> September 30, 1965.

the beginnings of a change for the better in the various fields of activity and among the great masses of the nation. The gratifying trend in agriculture and the marked recovery of the mining sector are positive indications of the effectiveness of these measures.

In the economic sphere, the gross national product has increased by 5.8 per cent. While the mining sector has been largely responsible for this increase, the construction, petroleum, and manufacturing sectors have also made substantial contributions.

Since the establishment, on firm bases, of the monetary stabilization plans, the value of the national currency has remained unchanged. No quantitative or qualitative restrictions exist on the sale of foreign exchange. International payments and transfers are not subject to controls or prior exchange permits. There are no differential exchange rates. As a result, Bolivia's economy has been stimulated and there are discernible the first indications of a climate of confidence within the country which, it is hoped, will encourage substantial capital investment and, in consequence, a gradual absorption of the unemployed labor force.

The 1964 balance of payments showed a substantial surplus and this improvement has been even more marked during 1965. As a result, Bolivia's international reserves have reached record levels. A new system of customs tariffs and regulations has been put into effect. This incorporates a number of structural, fiscal, and procedural modifications that will result in an improvement in customs collection and service. The most important purpose of this document is that it should serve as a basic instrument of development policy. It is designed to increase the domestic demand for local goods and services and to raise the coefficients of utilization of the factors of production. As a consequence of this approach, this new system of tariffs may be expected to lead to an increase in the rate of domestic investment, a fundamental precondition for sustained growth in the national income.

A new Mining Code has been issued which establishes a comprehensive policy of promotion of the mining industry, provides for tax concessions to encourage the capital expansion of mining enterprises, and also lays down the general standards for mining operations.

In order to achieve the regularization of Bolivia's economy, planning methods have been modified so as to place the emphasis on realistic aspects and thereby make it possible to achieve specific predetermined results. In this connection, a program has been drawn up for the years 1965 and 1966 that is expected to result in a growth of 6 per cent in each of those years.

In the social sphere, action has been taken to eliminate the trade union anarchy and to lay down the bases for a genuine trade union structure. This has already resulted in an increase in productivity, particularly in state-run mining, in which it has been possible to reduce operating costs and to make a start on a technical and administrative reorganization.

The development process is already entering upon the phase of concrete results. This phase will require a continuous increase in financial resources that will have to be generated by means of flexible mechanisms involving both domestic savings and, particularly, external financing. A vigorous program of promotion of agriculture and stock raising is in progress, and the conditions are being created for similar promotion of the private-enterprise mining sector through further reductions of royalties and tax burdens. The state-run mining sector is continuing to finance adequate credits for its expansion. Other noteworthy developments are the construction of first-class highways; the assignment of high priority to the construction of mining roads and access roads to the newly settled areas and the construction and improvement of airports and hydroelectric facilities; all measures designed to promote a dynamic expansion of Bolivia's economy.

Much still remains to be done, however, in order to ensure a constantly accelerating pace of social and economic development, for the country is only at the beginning of this great task. To this end, the following measures will be taken. A new Investment Law will be promulgated that will provide the best possible incentives and guarantees for capital investment through customs exemptions for imports of equipment and materials, tax exemption for profits over long periods, the establishment of the right to repatriate capital, profits, and reinvestments, and the speeding up of administrative procedures. In addition, the Civil Service will be

established on definitive and proper lines that will provide the basis for a complete reorganization of the public administration in Bolivia, based on modern concepts of civil service efficiency. The enactment of a coherent body of legislation to forward development and the adoption of the improvements in the public administration outlined above may be expected to result, in the near future, in an increase in national revenues. Such an increase will permit the Government to implement a dynamic plan for the execution of the development programs, while reserving a wide field to private enterprise but orienting it toward productive investment in line with governmental policy. The transfer to private or mixed enterprise of various potentially profitable activities now carried on by public agencies is another of the measures that the Government proposes to take to encourage private capital investment.

With respect to its foreign obligations, Bolivia is repaying its external debts despite the increasing absorption of foreign exchange and the severe impact on the balance of payments that this entails. Nevertheless, the conditions governing certain external obligations are being renegotiated in order to obtain a rescheduling of payments more in line with Bolivia's real payment capacity.

In brief, Bolivia has continued, with the aid of friendly countries and of international financial organizations, to go ahead with the implementation of an economic and financial policy designed to promote economic and social development in a climate of monetary stability, in spite of the sacrifice that this entails for the nation.

Under the circumstances described above, Bolivia, which still lacks the requisite financial resources, will need substantial and vigorous financial assistance adapted to its needs not only in terms of volume but also of timeliness and flexibility, so that it may eventually be able to finance its coordinated and systematic development out of its own means. The truth of this statement is demonstrated by IMF Document SM/65/69.

The facts having thus been set forth, it is appropriate now to emphasize the role played by the International Monetary Fund, which, since Bolivia adopted its program for the stabilization of the national currency, has continuously assisted it with recommendations and advice. The results of this assistance have

been most fruitful and have beyond all doubt contributed to the maintenance of order in Bolivia's monetary system. . . .

We are in agreement with other proposals relative to the maintenance of fair prices for raw materials and to the stabilization of the export prices of the industrialized countries with a view to preventing a deterioration in the terms of trade. Bolivia also considers it necessary to maintain an adequate international reserves position for balance of payments or short-term purposes and to avoid the imposition of exchange restrictions. It also considers that the International Monetary Fund should continue to study the question of reform of the international monetary system.

Finally, I have pleasure in stating that my Government is irrevocably committed to the policy of maintaining the stability and free convertibility of the Bolivian currency, as an essential factor for an accelerated and systematic economic and social development.

I should like to close by congratulating the authorities of the International Monetary Fund and of the World Bank and its affiliates, on behalf of the Government of Bolivia, on their intensive and fruitful efforts in the interests of their member countries.

STATEMENT BY THE GOVERNOR OF THE BANK AND  
FUND FOR ALGERIA

*Ahmed Kaïd*

Owing to the complexity of the problems confronting our institutions and the very short time allotted to me, I shall confine myself to making a few comments that, to my Delegation, appear essential. One of the advantages of our Annual Meetings is that they enable us to sum up what has gone before, to outline prospects, and to consider how best to attain a number of goals through the activities of the World Bank and its affiliates and of the International Monetary Fund.

First of all, let me extend my Delegation's congratulations to Malawi and Zambia on their admission to membership.

Since Algeria is one of the developing countries, I shall refer almost exclusively to activities concerning the fundamental aim of our institutions—the struggle for economic emancipation of the countries of the Third World. As so much has been said and written about this problem, in various parts of the world and over a long period, it is superfluous to describe underdevelopment or to suggest unrealistic and totally useless remedies. Where, however, do we draw the line between what is feasible and what is unrealistic? . . .

We pay homage to the heads of the IBRD Group and of the IMF and to their respective managements for the considerable advances made in the study of the needs of the underdeveloped countries and for the progressively substantial achievements on their behalf.

Everyone admits, however, that the means available for achieving real improvement are pitifully meager for the enormous needs they must satisfy and the answer to that question rests with the member governments. I turn now to the more affluent countries, to say that at a time when people are becoming more conscious than ever of their common fate, the economic, social, and cultural underdevelopment, constantly accentuated, of two thirds of the human race cannot be perpetuated without serious risk of world-wide catastrophe. It is of the utmost importance that massive means—material, scientific, and technical—be mobilized without delay in order to prevent the inequalities between nations from becoming still greater. . . .

To the basic question of the functions of the Monetary Fund I shall not return, except to recall that, when in Tokyo we indicated our support of the plan to increase the quotas at a time when the discussions on international liquidity were well under way, it was our intention first of all to emphasize that our institution has special qualifications for assuming the responsibility for the creation of any new means of liquidity and to make a partial decision on the substance and a sort of choice concerning the form.

I would rather, therefore, stress those aspects of the problem that still give rise to very marked differences of opinion, at least at this stage of the exchange of views. If it is assumed that the work to be undertaken must be a collective effort, if it is assumed that the reform, in order to ensure an adaptation of the system more in

line with the economic requirements of today and tomorrow, must further the efforts exerted and not go against the current, there can be no astonishment if the concept of international liquidity that would be issued by or on the responsibility of a limited group of countries has not received unanimous welcome. At a time when the developing countries are disputing the terms of trade that have hitherto permitted an accumulation of reserves to the profit of some countries and to the detriment of others, what justification can be offered for such a situation itself to giving rise to new rights and new reserves in favor of the richer ones and so aggravate the very imbalance that it is supposed to correct?

In replying in the negative, and in concluding once again unanimously in the course of this discussion that it is impossible to reach a common solution to the problem of liquidity and to the problem of financing development, the industrial countries give the impression that they are not disposed to seek reform at this time. If one recognizes the fact that these two problems are interrelated, at least in their political and psychological aspects, one must and one can link them technically. Bretton Woods did not do this, since it, on the contrary, established a watertight compartment between the resources of the Fund and those of the World Bank. But those then in authority could not, in a strict sense, foresee the importance of the political upheavals that were to come and the appearance of new countries with extensive needs for financing. Those in authority today cannot fail to recognize the problems peculiar to the developing countries, and for this reason it is imperative, now, that the adaptation under consideration should take those problems into account, in their general context as well as in the context of mechanisms and techniques.

The countries of the Third World, which have learned the lessons of the past, may be legitimately afraid that the countries which would undertake the issuance of new means of international liquidity, may wish, now more than in the past, to have the last word in the granting of assistance with the use of this money, and may seek to increase their pressure on the borrowers, and this precisely at a time when new importance is given to the dispensation of international financial assistance, giving it a diametrically opposite orientation.

A second basic principle of our position is that in every study of the international monetary system there must be fully taken into consideration the situation of the developing countries, which must be given at least as much weight as that of the industrialized countries.

If we restate this principle here, it is because we firmly believe that it can be applied in the solution of the problem of international liquidity.

Specifically, these observations lead us at once to reject any issuance of new means of liquidity under the control of a limited group of countries, and to justify any reservations that one might have concerning the deliberate creation of new liquidity without counterpart to the benefit of all of the countries, on the basis of criteria more or less linked to acquired positions—like the quotas in the Fund, for example; for such creations would not adequately meet the demands of a new, more adequate division among the participants.

There are many formulas that, in our opinion, would be capable of assuring the necessary selectivity among the original beneficiaries of the issues of new means of liquidity; they have not thus far received the welcome they should have. We believe, especially, that the method envisaged by the experts of the Ossola group in their Report, under the heading of “Special Operations of the Fund” which would be for the Fund to make available amounts of currency to an international institution like the World Bank, which would use them to finance individual projects, is certainly a step in the right direction, for it already puts an end to a distinction that we, for our part, have never considered decisive, in regard to international liquidity, between the short- and long-term assistance given, respectively, by the Fund and the Bank.

There may be even better methods.

One observation that can be made on this point is that, of all the methods put forward to date by authorities of established competence, to create new means of international liquidity, some of them, strangely enough, appear to meet only with indifference, if they have not already been rejected by hasty and caustic judgments.



At a time when the analysis of other techniques must have emphasized the gravity of the difficulties connected with the guaranteeing of the new reserve currencies and with the volume of global liquidity needed and the risk of international inflation, one may be surprised that the advantages of the techniques connected with the stocks of raw materials cannot be decisive. The way things are going it looks as if a complete absence of guarantee might be preferred to a guarantee considered imperfect, or as if the consumption and prices of primary products had no value as indicators of inflationary or deflationary pressures throughout the world.

That, at least, is a gap that logic commands us to close. And since everyone agrees that the present volume of liquidity offers us respite, why don't we take advantage of this to recommend that our institution go ahead and have its own staff either do or supervise the preparation of a thorough study of the machinery, the assets, advantages, and disadvantages, of the methods of creation, direct or indirect, of new means of liquidity tied to a counterpart of a stock of raw materials.

That is the proposal I should like to make—it should be well received since it will nurture doubts, even suspicions. If adopted, it will provide the serenity needed for future discussions and will enable everyone to express his opinion in full knowledge of the facts.

And if, as we believe they will, the studies reveal that only if the necessary effort is made to assure minimum markets and stable prices for these counterpart stocks will it be possible to avoid entirely or to abate the disadvantages seen in other methods considered, then there will be additional proof, without ignoring the needs and interests of the developing countries, that all the conditions required for the issue of a future reserve currency can be assembled.

Experience has taught the deprived countries the advantages they can derive from linking the solution of their problems to that of the problems of the rich countries. That will not prevent them from continuing their collective endeavors, as in the International Conference on Trade and Development, to find other solutions for their specific problems. Nor will it prevent them from under-

taking other efforts to that end, on more restricted bases, with a view to reaching agreements of the type recently concluded between France and Algeria on hydrocarbons, the positive nature of which I am pleased to point out here.

I had to take part in this discussion because at this stage of the development of the problem of international liquidity it seemed to me essential to recall, through my comments, this truth—that for real problems that jeopardize the equilibrium and the development of the entire world we must seek real solutions that take into consideration the interests of the whole world.

STATEMENT BY THE GOVERNOR OF THE BANK FOR PAKISTAN

*Mohammad Shoaib*

I have great pleasure in joining fellow Governors in congratulating Mr. Woods and Mr. Schweitzer on the conclusion of yet another year of solid achievement. It is indeed gratifying to note that in 1964-65 the World Bank and its affiliates have expanded the geographical coverage and, indeed, the entire field of their loan and investment operations. In the case of IFC, I am particularly pleased that, during the year 1964-65, IFC's largest operations have been in Pakistan.

The Fund also, I am glad to note, is taking more and more interest in the problems affecting the developing countries, and among those problems I include that of liquidity, which in reality affects the poorer nations of the world equally, if not more. The Governor for the United States stated that in the recent past three fourths of the addition to the monetary reserves of the world has been contributed through U.S. deficits and that, with an improvement in her balance of payments, international currency reserves will need to be supplemented by other measures. There are no doubt differences of opinion between the major countries regarding any possible reform of the international payments system and increases in international liquidity. These problems have recently been receiving the attention of the International Monetary Fund, which is the obviously appropriate forum for consideration of such matters, and I hope that there will soon be agreement on the basic

points at issue so that adequate measures are taken in time for ensuring international liquidity at a level adequate for the smooth flow of international trade and payments. . . .

Some five years ago, I made some suggestions in regard to the problem of the deteriorating terms of trade that the raw material exporters face. There was a slight improvement in the terms of trade two years ago but we are once again back where we were, and the deterioration continues. I still maintain that unless some self-adjusting mechanism is adopted whereby those who benefit from fluctuations in the terms of trade will make some payments to those who suffer from such fluctuations, the picture will remain one of an increasing measure of disparity between the rich and the poor nations. In fact, the total so-called aid received by the underdeveloped world has been less than what they have lost in the terms of trade alone, and the meaning of all this is that the poorer peoples are contributing toward raising the standards of living of the richer peoples. . . .

Before I conclude, may I repeat another suggestion which I have previously made. If the nations of the underdeveloped world are to be enabled to carry out a modicum of economic development and be able to make repayments of their obligations on due dates, it is vital that we should be allowed to trade with the industrialized world, not only in raw materials but also in certain forms of manufactures. The fields of highly complicated and sophisticated manufactures are already pre-empted by the industrialized world, and it is highly improbable that we would be able to enter them for many, many years to come. Anyhow, unless we can pay in goods we may not be able to pay at all, and quite clearly we cannot go on increasing our production of raw materials alone for making these repayments since the capacity of the world to absorb these raw materials and our capacity to produce them is not unlimited. Moreover, the more raw materials we produce, the lower the prices we get.

I have already touched on the problem of international liquidity and I cannot say that I have a ready-made solution to suggest, but I do feel that the entire world has a very keen interest in the solution of this problem which must, therefore, be tackled by an international institution like the IMF and not by any restricted groups.