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ECONOMIC COMMITTEE

SUMMARY RECORD OF THE FORTY-FIRST MEETING

Held at Lake Success, New York,
on Thursday, 3 March 1949, at 3 p.m.

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Chairman:	Mr. SKOROBOGATY	
Members:	Mr. MUNRO	Australia
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	Mr. ALMEIDA	Brazil
	Mr. SMOLIAR	Byelorussian Soviet Socialist Republic
	Mr. VALENZUELA	Chile
	Mr. CHA	China
	Mr. IVERSEN	Denmark
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	Mr. TYCHANOWICZ	Poland
	Mr. OZGUREL	Turkey
	Mr. CHERNYSHEV	Union of Soviet Socialist Republics
	Miss FISHER	United Kingdom
	Mr. KOTSCHNIG	United States of America
	Mr. NASS	Venezuela

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Representatives of Specialized Agencies:

Mr. EVANS	International Labour Organisation (ILO)
Mr. LOPEZ-HERRARTE	International Bank of Reconstruction and Development
Mr. GUTT	International Monetary Fund
Mr. WILLIAMS	
Mr. HORNE	

Representatives of Non-Governmental Organizations:

Miss SANSOM	International Chamber of Commerce

Secretariat:

Mr. OWEN	Assistant Secretary-General in charge of the Department of Economic Affairs
Mr. MESSING-NIERZEJEWSKI	Secretary of the Committee

RECONSIDERATION OF THE AGENDA.

The CHAIRMAN announced that, as the necessary documents had not yet been prepared, the Committee was not in a position to discuss item 19 of the Agenda, report of the FAO on increase of food production, or the related item on the problem of wasting food in certain countries. The only item which the Committee was in a position to discuss was the Report of the International Monetary Fund. Since the Council was itself engaged in discussing economic questions and members of the Committee might wish to attend the Council meeting, he suggested that the Committee should postpone its meeting until 5 p.m.

There followed a short discussion on procedure in which Mr. van LANGENHOVE (Belgium) proposed that the meeting should be postponed until the following morning, Mr. SAKSENA (India) proposed that the Committee should hear the introductory statement by the Managing Director of the International Monetary Fund and postpone the rest of the discussion, and Mr. KOTSCHNIG (United States of America) proposed that the Committee should hold the full discussion on the item straight away.

The proposal made by the representative of Belgium was rejected by 10 votes to 4, with 3 abstentions.

The proposal made by the representative of India was rejected by 7 votes to 4, with 5 abstentions.

The proposal made by the United States representative was adopted by 8 votes to none, with 9 abstentions.

REPORT OF THE INTERNATIONAL MONETARY FUND (E/1078).

At the invitation of the Chairman, Mr. GUTT, Chairman of the Executive Board and Managing Director of the International Monetary Fund, made a statement.

Mr. GUTT (Chairman of the Executive Board and Managing Director of the International Monetary Fund) welcomed the opportunity to come into personal contact with the Economic and Social Council. There already existed a flow of information from the Fund to the Council, not only by means of documents, but also because of the fact that all except three of the 47 members of the Fund were also members of the United Nations and were therefore, at one time or another, represented in the Council.

At the Council's previous session regrets had been expressed that the Fund had submitted only a summary report. The report at present before the Council was more detailed but was not entirely up to date. That was due to the fact that the Fund had to produce its detailed Annual Report some time between 1 May, which was the end of the financial and fiscal year, and the beginning of September when the meeting of the Board of Governors was held. As the preparation of the report took some time it was always published too late for the July Session of the Council and too early for the February Session. That was, however, of no practical importance since the Fund's policy was a long-term one which did not change in the interval between the publication of the report and its consideration by the Council. Naturally, if any such change did take place, the Council would immediately be informed.

Moreover, each month the Fund published a report giving a detailed account of operations for the past month and each quarter it published a more detailed report comprising a Balance Sheet and a statement of currency holdings. Mr. Gutt stated that he had also distributed an informal paper

With regard to the Fund's activities, some people were inclined to over-estimate its powers, while others under-estimated its achievements. Although the Fund's powers were quite considerable, they were limited by its charter and by the resources at its disposal. The capital subscribed by the 47 members of the Fund amounted to the equivalent of U.S. $8,034 million in gold and the national currencies of its members. That was a large sum, but it did not appear so great when compared with the allocations of the ECA which, for the first 12 months alone, amounted to $5,000 million. Moreover, the contribution of the ECA was entirely in dollars, while the money originally paid into the Fund was largely in currencies other than dollars. The Fund's dollar holdings at the time of its first quarterly statement had been $2,030 million plus $1,333 million in gold, and $3,155 million in other currencies.

However, within the framework of its charter, the Fund had fulfilled all the functions conferred upon it. Some of those were well-known to the public through announcements of transactions effected and decisions taken. Some which were less well-known were probably much more important, namely, the Fund's constant contact with its members, the advice requested and given, the continuous study of each member's problems in the light of its own economic, financial and monetary situation as well as those of other countries and the intensive research which had built up a unique collection of economic and monetary information.

The Fund's activities were described in the report but he would nevertheless give some explanation about each of them.

First, there were the juridical functions. The problems raised by the execution or the interpretation of the Fund's Articles of Agreement were submitted to the Executive Board and the conclusions of the Board's discussion were communicated to the members. A great deal of advice had been given and numerous decisions had been made. In order to give some idea of the work done he mentioned that the Executive Board had held more than 400 meetings since 6 May 1946, the date of its first meeting.

The Fund also undertook to give technical advice and, during the past year, numerous missions had been sent to member countries, some for the purpose of studying the situation of those countries at first hand and reporting it to the Board, and some for the purpose of meeting the demand made by members for expert advice on the handling of their financial problems. In addition to formal missions, contacts had been established by members of the staff specially assigned for the purpose.

He had himself visited Scandinavia, Eastern and Western Europe, Canada, Mexico and most of the countries of South America. He had not had time to visit the Middle and the Far East but missions had been sent there. Furthermore, there was always the essential contact established through the intermediary of the Executive Directors with the countries which they represented on the Board.

The Fund attached a great deal of importance to its activities in that direction and considered that, by studying the reports of the missions and drawing conclusions from such study, it would best be able to contribute to the creation of conditions necessary to the establishment of stable exchange rates and convertible currencies.

Another essential activity carried out by the Fund was the selling of foreign exchange to Governments experiencing balance of payments difficulties in their current operations. The Fund had furnished foreign exchange to its members in all parts of the world and its sales totalled $700 million, of which $682.5 million had been in United States dollars and the rest in other currencies. Sales since the publication of the Annual Report had totalled $93 million. He made it clear that the Fund was not a bank from which countries could draw at their convenience and that it was in the interest of the members themselves to appeal to the Fund only in cases of absolute necessity.

In determining its policy concerning the sale of foreign exchange, the Fund took into account the total balance of payments of each of its members in so far as it could be estimated. One of the factors taken into account in making those estimates had been the implementation of the European Recovery Programme, which had materially influenced the dollar position of the countries of Western Europe. On 5 April 1948, the Executive Board had decided that, at least during the first period of the implementation of the programme, the Fund's members participating in ERP could ask for dollars only in exceptional or unforeseen cases. Among such cases was included that of a country whose currency had been sold by the Fund to other members. The Fund recognized that such sales should not have the effect of compelling a country to finance a large bilateral surplus with some countries while having to make net drawings on its gold and convertible currency reserves for current payments. The decision taken by the Board did not prevent the sale of currencies other than dollars to members participating in ERP, and Belgian francs had been sold to the Netherlands and Norway during the past year. However, the majority of the Fund's operations were still effected in dollars.

The Fund's other activities were fully described in the report. Mr. Gutt wished, however, to draw attention to two points of special interest.

In the first place, the Fund had laid considerable emphasis on collaboration with other international organizations as well as with its own members. For example, it would shortly complete a study, undertaken at the request of the Economic Commission for Latin America, concerning the possibilities of regional multilateralization of payments in Latin America and a similar request had recently been received from the Economic Commission for Asia and the Far East.

Moreover, the Fund was constantly strengthening its relations with its members, both in promoting an understanding of its policy and in perfecting the mechanism whereby members furnished the necessary statistical information to the Fund. The two publications issued by the Fund -- the monthly bulletin "International Financial Statistics" and the weekly review "International Financial News Survey" -- had proved extremely useful. In the near future the first yearbook would be published summarizing statistical data on the balance of payments of all members.

In the second place, he wished to correct some erroneous ideas on the question of exchange rates. One of those ideas was that adherence to the Fund implied the obligation to maintain, at all costs, rates of exchange which had lost all economic justification. That idea was based on a false interpretation of the word "stability", which should not be confused with "rigidity". A detailed explanation of that point was given on pages 21 and 22 of the report.

Another false idea was that, at a given moment, the Fund should recommend a uniform adjustment of all European currencies. Such a suggestion would obviously bear no relation to reality, since the economic situation, on which monetary policies were primarily based, varied from country to country.

The third error consisted in the belief that economic and financial difficulties could be automatically solved by a monetary devaluation. That was an over-simplification of the problem brought about by considering the exchange rate independently of all the other factors which made up the international balance of payments. The most important duty of the Fund was to see that exchange adjustments were made when necessary, at the required moment and in an orderly fashion, taking into account the interests of all the member countries.

The only monetary adjustment of that kind which had taken place since the publication of the report was that of Colombia. The Fund had approved that change and the new rate of 1.95 pesos to the dollar had been announced in November 1948.

In conclusion, Mr. Gutt said that he would be glad to answer any questions or furnish any further information which the Committee might desire.

Mr. KOTSCHNIG (United States of America) stated that the United States delegation fully approved the Report of the International Monetary Fund.

He was sure that all had found the statement of the Chairman of the Executive Board and Managing Director of the International Monetary Fund very helpful in clarifying the current operating policies of the Fund. The Fund had assumed a role of outstanding significance and at no other time had there been a greater need for an instrument that would strive for monetary co-operation and serve as an impartial adviser on fiscal and monetary policies. It should be recognized that in those fields could be found the most persistent bottlenecks of international trade and a major stumbling block to world recovery and future development.

In reading the Report and in listening to the Chairman of the Executive Board of the Fund, the United States delegation had been particularly interested in the distinction of concept made by the Fund between exchange stability and exchange rigidity. It fully agreed that the old time concepts of exchange rigidity might produce anything but stability, and strongly endorsed the statement in the Report that "in some countries the exchange rate is becoming a restraining factor on imports and is adding to the difficulty of earning convertible currency."

Closely connected with the problem of stability or rigidity of exchange was the problem of exchange restrictions, of discriminatory currency arrangements and a variety of trade controls. Those devices were highly contagious and spread with great rapidity. A widespread epidemic of trade controls, such as was prevalent at the present time, resulted in a general stifling of international trade that would undermine the well-being of the world. It was important that every effort should be made, as far as was compatible with the economic realities of the present day, to relax and, as far as possible, to remove those artificial devices, as they retarded and in some cases blocked the attainment of a smoothly functioning international

Another factor dealt with by the Fund was the world-wide problem of inflationary pressures. Such a problem called for sound and effective national policies as failure to avoid runaway inflation would greatly dissipate all other efforts being made to reach full recovery and international equilibrium.

The United States delegation welcomed the recognition on the part of the Fund of the broad economic objectives of the European Recovery Programme and its willingness to co-operate in the attainment of those objectives. Recovery of trade and production in Western Europe would greatly benefit the whole world and therefore merited the full co-operation of all who were in a position to supply assistance.

Mr. Kotschnig considered that the reference in the Report to the activities of the Fund in the field of technical assistance and advice was particularly striking and that the missions sent to various countries could not fail to have extremely important results in the future.

Mr. van LANGENHOVE (Belgium) said he had listened with great interest to the statement of the Chairman of the Executive Board and Managing Director of the International Fund.

Referring to the statement made by the Belgian representative in the Economic and Social Council during the previous week, he pointed out that several members of the Council had on that occasion stressed the fact that although there had been an increase in the production of foodstuffs and of basic products during the past year no improvement could be noted in the balance of payments situation. As far as trade and exchange restrictions were conderned he felt the situation had deteriorated. He quoted the following sentence from page 25 of the English text of the Report: "The fundamental conditions which would make possible the abandonment of trade and exchange restrictions are, however, entirely absent today in most parts of the world..." As nearly a year had elapsed since that statement had been made in the Fund's Report, he wondered whether the Chairman of the Executive Board of the Fund could make any further announcement at the present time.

Mr. GUTT (Chairman of the Executive Board and Managing Director of the International Monetary Fund) said that the statement made in the 1948 Report could also be applied to the situation at the present time.

The most important thing was to improve world production; as that occurred restrictions could be removed. It would be a mistake to think that by removing all restrictions on trade and exchange at the present time the problem would be solved. Improved production and greater exports to the dollar areas were necessary. If a difficult situation arose in connexion with a country's balance of payments as the result of a bad monetary policy another rate of exchange might be fixed and devaluation resorted to on condition that devaluation was not caused by inflation resulting from an unbalanced budget or excessive credit policy.

In countries where balance of payments difficulties were not the result of a bad monetary policy there was evidently need for more production and more exports. Countries who had "put their house in order" and whose exports were still being hindered by an excessive exchange rate could apply to the International Monetary Fund for help.

The CHAIRMAN suggested that the Economic Committee should recommend that the Council take note of the Annual Report of the International Monetary Fund and request the Secretary-General to transmit to the Fund the records of the discussion which had taken place on the Report.

The proposal was adopted by 15 votes to none, with 2 abstentions.

The meeting rose at 4.15 p. m.