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President: Mr. C. W. A. SCHURMANN (Netherlands).

Present:

Representatives of the following States: Afghanistan, Brazil, Bulgaria, Chile, China, Costa Rica, Denmark, France, Japan, Netherlands, New Zealand, Poland, Spain, Sudan, Union of Soviet Socialist Republics, United Kingdom of Great Britain and Northern Ireland, United States of America, Venezuela.

Observers for the following Member States: Argentina, Australia, El Salvador, Greece, Indonesia, Iran, Ireland, Mexico, Philippines.

Observers for the following non-member States: Federal Republic of Germany, Holy See.

Representatives of the following specialized agencies: International Labour Organisation; Food and Agriculture Organization of the United Nations; United Nations Educational, Scientific and Cultural Organization; International Monetary Fund; World Health Organization; World Meteorological Organization.

The representative of the International Atomic Energy Agency.

AGENDA ITEM 3

Report of the International Monetary Fund (E/3313 and Add.1) (concluded)

1. Mr. AHMED (Sudan) said that he was happy to note that the International Monetary Fund had completed another satisfactory year of operations, during which the Sudan had greatly benefited from its financial help and technical assistance.

2. The picture which emerged from its report[1] was, however, a mixed one. The countries of Western Europe had made great progress in expanding their resources and production, in stabilizing the prices of manufactured goods and in improving their balance of payments position and increasing their general liquidity. Their attainment of internal stability by the effective reduction of inflationary pressures, and the liberalization of trade and foreign exchange restrictions which they had been able to carry out in consequence, represented the favourable side of the picture. He was, moreover, confident that it would not be long before those European countries which still maintained exchange restrictions would be able to abandon them.

3. On the other hand, the record of the primary producing countries during the same period was far from satisfactory. The most disturbing feature was the fall of some 30 per cent in commodity prices and the consequent sharp reduction in their export earnings and domestic income and savings. It could be argued that the factors which had caused the further deterioration in their terms of trade from the already unfavourable 1957 level were short-term in nature and had already been counteracted in many instances by the use of appropriate fiscal and monetary measures. The fact remained, however, that there was also a long-term aspect to the deterioration in the primary producing countries' terms of trade with which they could not deal by themselves. Technical changes and technological developments had been of great benefit to the industrialized countries and it was incumbent on them to do everything in their power to ensure that the less developed countries also benefited from those developments. The IMF report listed a number of ways in which that could be done and referred, inter alia, to the need for the industrialized countries to adopt trade policies which would not have unfavourable effects on the export earnings of primary producing countries and to make available official capital and stimulate the flow of private capital in so far as that flow depended on them rather than on the policies of the countries in need of investment funds from abroad.

4. The Sudan, which had a one-crop economy, had suffered severely from the deterioration in its terms of trade. Realizing the danger of relying on a single crop, it had for some years been carrying out experiments with a number of other crops including sugar, tobacco, rice, coffee and castor beans and hoped as a result to be able to diversify its economy in the near future.

5. The volume of purchases from the Fund and the number of stand-by arrangements concluded afforded evidence of the scope and magnitude of the Fund's past activities. As a result of the general and special increases of the quotas in gold and currencies of member States it would undoubtedly be able further to expand its activities in the future.

6. He wished also to record the importance which his country attached to the Fund's technical assistance programmes. Many countries which had availed themselves of that assistance had found it possible to reduce or entirely eliminate exchange restrictions and to abandon bilateral payments arrangements. He was confident that with the Fund's help the remaining restrictions would be removed in due course.

7. Mr. DUDLEY (United Kingdom) expressed his great appreciation of the report and the general comments made by the Managing Director of the Fund; they

[1] International Monetary Fund, Annual Report of the Executive Directors for the fiscal year ended April 30, 1959 (Washington, D.C.), transmitted to the Council by a note of the Secretary-General (E/3313); and "Summary of activities from May 1, 1959, to December 31, 1959", transmitted to the Council by a note of the Secretary-General (E/3313/Add.1).

represented an invaluable contribution to the Council's discussion of major economic problems.

8. With regard to the relationship between the United Kingdom Government and the Fund, he noted that the United Kingdom's outstanding debit of $330 million at the end of 1959 was being liquidated and that it expected to clear the account by the end of 1961. Moreover, the United Kingdom had given up its stand-by arrangement with the Fund in 1959 and made no drawings against it.

9. It was gratifying to note that, during the period covered by the report, many countries had taken steps to liberalize their trade and payments and had used the facilities of international institutions such as IMF, GATT and the Organization for European Economic Co-operation towards that end. The United Kingdom was playing its part in the Executive Board of the Fund in discussions concerning the move to article VIII of the Articles of Agreement whereby more members would assume permanent obligations regarding exchange restrictions and convertibility.

10. It was fundamental to the trade policy of the United Kingdom Government to prevent the perpetuation of artificial and discriminatory trade barriers, and he noted the view of the Fund's Managing Director that the lowering of artificial and discriminatory barriers to trade was essential to give impetus to a balanced expansion of world trade, to eliminate the causes of dangerous tension between trading nations and to raise the standards of living of their populations. The United Kingdom and other members of the European Free Trade Association were considering measures to be taken to avoid discrimination between the two European trade groups and to take account of the rights of third parties. A solution to the problem of possibly imminent discrimination would show the desire of both groups to benefit from world trade and would be consistent with the responsibility of the highly industrialized countries towards the less developed countries.

11. An equally important aspect of the removal of trade discrimination would be the provision of markets for the products of the increasingly diversified economies of less developed countries. The establishment by the Council of an organ dealing specifically with their industrialization would give further impetus to the development of those nations. The Commonwealth Economic Conference held at Montreal in 1958 had demonstrated its awareness that a sharp increase in exports of manufactured goods from under-developed countries might threaten to disrupt an established industry in importing countries and that a solution to that problem must be sought in the common interest. By voluntary negotiation, the cotton industries of India, Pakistan, Hong Kong and the United Kingdom had agreed to alleviate one aspect of the problem and the United Kingdom Government had taken action to reorganize the British domestic cotton industry in order to facilitate markets for the products of the less developed cotton producers.

12. The United Kingdom had also acted on its conviction that monetary stability and economic and industrial growth were compatible and could exist simultaneously in the national economy. Some critics had believed that monetary stability might lead to underemployment of domestic resources and restriction of the growth of the economy. Nevertheless the United Kingdom Government had taken drastic measures to deal with its monetary crisis in the latter part of 1957 without consequential detriment to its economic growth. Indeed, the level of prices in the United Kingdom had remained almost constant in the past two years and unemployment had reached an unprecedentedly low level. At the same time, in the past year industrial production had risen by 10 per cent and had been accompanied by a substantial increase in productivity and almost total price stability. As a result, the domestic standard of living had risen and the economic aid provided by the Government and by private sources in the United Kingdom to economic development in the less developed countries had also considerably increased. The example of the United Kingdom was instructive; its policy had been advantageous to all. The United Kingdom Government meant to maintain that situation and not to risk a further inflationary spiral. Accordingly, when certain dangers had appeared the Bank of England had increased the Bank rate to 5 per cent, and steps had been taken in the recent budget for the forthcoming fiscal year to moderate certain excess pressures and to avert a price spiral.

13. Mr. ORTIZ MARTIN (Costa Rica) said that his country had managed to maintain monetary stability only by dint of great effort because its economy was constantly threatened by falling coffee prices on the world market and it was forced to pursue a cautious policy of public expenditure without serious cut-backs in its economic development plans. Its foreign exchange had been sufficient for its current needs, but it was forced to continue a restrictive policy in order to protect its industry and to maintain a favourable balance of payments. It was to be hoped that the sacrifices imposed on the population by the high prices of essential commodities resulting from the high cost of imports from manufacturing countries would be temporary. Unfortunately, an end of temporary restrictions could not be foreseen in many of the less developed countries; indeed, they frequently had to be increased to prevent an economic crisis. Despite the monetary stability which Costa Rica had managed to achieve, it could not be optimistic so long as it continued to depend on the export of a single product—coffee—for its foreign exchange resources, and so long as the price of that commodity on the world market continued to fluctuate markedly. The situation might be somewhat alleviated in future if the economy, through development, could be sufficiently diversified to reduce its dependence on coffee. Urgent steps had to be taken in Costa Rica and in other countries with single-product economies towards that end.

14. He expressed his country's appreciation to the Fund for the advice and assistance provided with respect to the maintenance of its monetary stability.

15. Mr. SOSA RODRIGUEZ (Venezuela) said that his Government attached great importance to the report of the Fund because it provided useful information affecting various aspects of economic life and, in particular, because it showed precisely how the Fund was assisting countries to correct monetary instability and avert crises.

16. The decision of the Board of Governors of the Fund to increase the Fund's resources had had a major impact on Venezuela. Past experience had shown that the liquid resources maintained by the Fund were not sufficient for members to regard the Fund as a second line of reserves. As a result of the Board's decision,

the Venezuelan quota had been increased from $15 million to $150 million. The increased quota had been accepted by the Venezuelan Government, subject to ratification by the Congress. Moreover, the Venezuelan Government had negotiated an agreement with the Fund under which it would be granted a $15 million credit for the forthcoming three months. That credit could be expanded to $100 million following ratification by the Congress of the increased Venezuelan quota.

17. In order to protect the country's credit, the present Government had decided to settle the obligations incurred as a result of the inflationist policy pursued by the dictatorial régime that had been overthrown in 1958. That decision had led to a temporary reduction in bank reserves, which had given rise in turn to the rumour that Venezuela was contemplating the introduction of exchange controls. His delegation wished to scotch that unfounded rumour. His Government's economic policy was to maintain the convertibility of the bolivar and full freedom of exchange. The attitude of the International Monetary Fund and the terms of the agreement it had concluded with Venezuela bore out that fact and demonstrated the strength and international prestige of the Venezuelan economy. His Government had framed a firm anti-inflation policy that would help provide a solid basis for the four-year plan which would shortly be presented to the National Congress. That plan envisaged the progressive development of productive resources and accorded particular importance to industrialization and to the execution of the recently promulgated land reform under which large expanses of government-owned and private land that were at present unexploited would be put to use. The reform would be carried out with the strictest respect for private property; expropriation would be resorted to only when necessary and only against suitable compensation.

18. On behalf of the Venezuelan Government, he thanked the Fund for the generous terms on which it had negotiated the recent agreement for an extension of credit to Venezuela.

19. Mr. JACOBSSON (Managing Director of the International Monetary Fund) thanked the members of the Council for their confidence in the Fund and their recognition of the useful work it had accomplished, and for the valuable accounts they had given of their experiences in creating and maintaining monetary stability. He emphasized the importance of membership in the Fund as a means of obtaining important information about general world developments, and especially monetary policies, of participating in the Fund's decisions and of ensuring that the interests of individual countries would be taken into account.

20. It was gratifying to find a large measure of agreement on the main principles of monetary policy and on the close interrelation between monetary stability and development. The idea that stability was a prerequisite for economic growth had been recognized by both industrialized and non-industrialized countries and there appeared to be full agreement on the importance of resisting inflation and basing development on genuine savings. Credit creation, upon which less developed countries were often tempted to rely, could never be a substitute for savings; it could only be a temporary basis for development while wages lagged behind and people were unjustly taxed by inflation.

21. The transition from an inflation mentality to an expectation of stability was often fraught with difficulties. In some countries, like France, where industrial development was already far advanced, the transition had been less painful in that it had been more or less a question of financial stability which, once accepted by the country at large, had led to a continuance of growth. Argentina, at the other extreme, after ten years of economic stagnation, had had to achieve not only financial stabilization, but drastic changes in the basic ways of developing the economy, with important social implications. Its transition would therefore be much more difficult. Perhaps the greatest transition achieved in recent years had been the bringing of the international price level into closer relationship with the price level in individual countries. That change gave a firmer basis to cost accounting and a certain realism to all economic calculations.

22. During the transition phase and the striving to give effect to stabilization plans, the political dangers and difficulties of an austerity period had often been invoked. Recent political events, however, had led him to believe that it was politically much less dangerous to introduce stability by taking drastic measures than politicians were apt to believe. The public was tired of inflation and wanted to know what its money was worth; those who really took the proper steps would find a great deal of responsibility among the public. In both Spain and Japan, where harsh measures had had to be taken for a brief period, the transition had not been too difficult. In Spain, in eight months, the monetary reserves had risen by over $200 million in addition to what had been obtained from credits. In Japan, the industrial vigour of the country had eased the transition. Both cases had demonstrated that when people began to believe in the monetary stability of the country, there would be certain movements of funds which would greatly facilitate the task of the authorities.

23. In expressing opinions on whether restrictions were needed for balance of payments reasons, the Fund constantly bore in mind one of its basic purposes, namely, the promotion of the growth of world trade. That fact should prove reassuring to several countries whose representatives had expressed certain misgivings on the subject.

24. With regard to compensatory financing, the Fund did not believe that there could be an automatic formula or that a special institution should be established for the purpose. The Fund was prepared to help countries over temporary difficulties; but where there was a long-term decline of a structural nature in the price for a commodity, experience had shown that financing would not suffice. The Fund hoped to gain more experience about the problem in future.

25. Reviewing the activities of the Fund, he observed that the period of preoccupation with the crisis in Europe had been succeeded by one of great attention to Latin America. The Fund had been gratified by the courageous steps taken by many of the Latin American countries, convinced that inflation could lead nowhere towards stabilization. Although it would continue to exert efforts to assist those countries, the Fund would in future be directing increasing attention to Africa. It had already extended credits to the Sudan and Morocco; it had technical assistance in eight African countries and contact with eleven of them. Fortunately, many of them had sound currencies and had not experienced the limitless inflation which had plagued Europe. The Fund had also been active in Asia: it had extended credits to

India and Japan, had consultations with many other Asian countries, and provided technical assistance to Saudi Arabia, where the currency position now appeared to be stabilized. Saudi Arabia had declared a par value for its currency and made it very nearly convertible.

26. The Fund had work to do in times of prosperity as well as in times of economic adversity. On the other hand, at the present juncture, it saw no signs of deflation. The fight against inflation was the more important because there were strong forces for stability on the world markets. That was shown by the fact that during the last boom, when the volume of imports of European countries had increased by 20 or 30 per cent, there had been no increase on the average in the prices of raw materials and foodstuffs. It was a great exception to all that had been experienced in the past, and while it reflected a trend towards stability, it also made it all the more important for individual countries to continue to resist inflation. If, however, deflation should set in, it would not be possible to rely on an abundant gold production to lift prices, but rather on open market operations by Governments. The need for co-operation among the various countries was therefore urgent and the Fund and other financial institutions could be of great assistance. Moreover, countries would have a stand-by in the increased quotas.

27. The PRESIDENT suggested that the Council should adopt its customary resolution taking note of the report of the International Monetary Fund.

It was so decided.

28. The PRESIDENT thanked the Managing Director of the Fund for his valuable contribution to the Council's work.

The meeting rose at 4.30 p.m.

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