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ECONOMIC AND SOCIAL COUNCIL

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CONTENTS

President: Mr. Akira MATSUI (Japan).

Present:

Representatives of the following States, members of the Council: Algeria, Argentina, Austria, Canada, Chile, Czechoslovakia, Ecuador, France, Gabon, Iraq, Japan, Luxembourg, Pakistan, Peru, Romania, Union of Soviet Socialist Republics, United Kingdom of Great Britain and Northern Ireland, United States of America.

Representatives of the following States, additional members of the sessional committees: Cameroon, Denmark, Ghana, India, Iran, Madagascar, Mexico, United Arab Republic, United Republic of Tanzania.

Observers for the following Member States: Australia, Byelorussian Soviet Socialist Republic, China, Colombia, Cuba, Greece, Hungary, Ireland, Israel, Italy, Nepal, New Zealand, Sweden, Trinidad and Tobago, Tunisia, Turkey.

Observer for the following non-member State: Switzerland.

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

The representative of the International Atomic Energy Agency.

AGENDA ITEM 3

Report of the International Monetary Fund (E/4003 and Add.1)

1. The PRESIDENT welcomed the Managing Director of the International Monetary Fund (IMF) and invited him to take a seat at the Council table.

2. Mr. SCHWEITZER (Managing Director of the International Monetary Fund), presenting the annual report of the Fund,[1] said that, convinced as he was of the importance of maintaining and strengthening international co-operation in the economic and social field, he welcomed the establishment of the United Nations Conference on Trade and Development (UNCTAD) as an organ of the General Assembly. He was confident that there would be close collaboration between the Fund and the Trade and Development Board.

3. In December 1963 he had told the Council (1311th meeting) about favourable developments in the world payments situation. First, the United States had been meeting with encouraging success in its efforts to narrow the deficit in its balance of payments; secondly, for the first time for several years there had been a strong and general rise in the prices of primary commodities. The world as a whole had been experiencing an unusually high rate of growth in output and trade. Since that time, progress had continued but had not been uniformly satisfactory. A number of industrial countries had found that their high rate of economic expansion was threatening internal financial stability and in some cases their balance of payments as well. In the course of 1964 almost all the principal countries of Europe, as also Japan, had introduced measures to curb inflation. Thus, although a climate of prosperity, accompanied by generally good markets for primary products, had on the whole been maintained throughout 1964, the expansionary forces had lost some of their momentum by the end of the year.

4. Several industrial countries had indeed encountered difficulties with their balance of payments, particularly Italy and the United Kingdom. At the same time, although the United States had achieved notable improvements in certain elements of its international payments situation in 1964, its over-all deficit for the year had not been markedly lower than that recorded in 1963. The current account surplus had grown considerably, but had been largely offset by a sharp increase in the outflow of private United States capital, chiefly in the form of bank loans and short-term commercial credits. That outflow had been influenced by a number of factors, among them the continued attractiveness of investment opportunities in Europe and Japan and the differing credit and interest rate policies pursued in Europe and North America. In Europe, both short-term and long-term interest rates had risen strongly during the year and there had been a general tightening of credit policies. In the United States, on the other hand, long-term interest rates had remained virtually stable in 1964, while short-term rates had risen only moderately towards the end of the year. As a result of the new financial measures recently announced by the United States, there was a prospect that its over-all deficit might in the near future be substantially reduced. In 1964 most countries of the European Common Market area had applied policies designed to curtail excessive pressure of demand; as a result there had been a slow-down in the rate of growth for the area as a whole and some strengthening of the area's balance of payments position on current as well as on capital

[1] International Monetary Fund, Annual Report of the Executive Directors for the Fiscal Year ended April 30, 1964 (Washington, D.C.), and supplementary information for the period from 1 May 1964 to 31 January 1965. Transmitted to the Economic and Social Council by notes of the Secretary-General (E/4003 and Add.1).

account. The remarkable turn-about within a few months in Italy, from a severe exchange crisis to a substantial over-all surplus in its payments, was worthy of mention. The growth of the Italian economy had, however, been severely checked and the authorities were now engaged in its reactivation. There were also signs of relaxation of restraint in Japan, where an impressive increase in exports had brought the current balance of payments nearer to equilibrium.

5. The continued expansion of economic activity in the industrial nations had again led to a considerable increase in both the volume and the value of world trade. During the period from September 1963 to September 1964, the value of trade had risen by about 13 per cent over the level of the previous twelve-month period. The demand for most primary products had remained strong throughout 1964 and their prices had been, on average, about 5 per cent higher than in 1963. As a result, the rise in the value of exports of primary products had kept pace with the expansion of world trade.

6. That was why the developing countries as a whole had been able to add to their exchange reserves throughout 1963 and well in 1964, although towards the end of 1964 those reserves had ceased to grow and in many countries had begun to decline.

7. At the beginning of 1965 the situation had become more difficult. Developments would depend in large part on whether the efforts of some major industrial countries to stabilize costs and prices could be offset by the expansionary influence expected in others, chiefly Italy, Japan, Canada and the United States. It was to be welcomed that the steps taken by the United States to improve its own balance of payments and reduce the outflow of capital had been designed to have no adverse effect on the world economy as a whole. The balance of payments of the primary-producing countries might be less favourable in 1965 than in 1964 because of the decline in the demand for primary commodities and the rise in imports of those countries.

8. The difficult payments position of the United Kingdom and the continued deficit in the United States had evidently, early in 1965, been increasing the strains in the international monetary system. It was important that surplus countries should follow policies that would permit the expansion of the world economy to continue.

9. Turning to the Fund's operations, he said that the main feature in 1964 had been the large financial assistance that the Fund had given to industrial nations. Total drawings from the Fund during the year had risen to nearly $1,950 million—more than double the amount provided by the Fund in 1962 and 1963 together. That figure had been principally accounted for by drawings made by three industrial members—Italy, the United Kingdom and the United States—totalling $1,750 million. By contrast, repayments made to the Fund in 1964 by the developing countries had exceeded their new drawings, which had been the smallest for five years. In the early months of 1965, however, their drawings had risen substantially and several new stand-by arrangements had been made. Indeed, since 1 January the Fund had entered into stand-by arrangements with nine non-industrial countries for a total of almost $450 million, including one of $200 million for India.

10. The drawings made by Italy and the United States had not extended beyond the gold tranche and had been the first use those countries had made of the Fund's resources. The Italian drawing, made in March 1964 for an amount equivalent to $225 million, had been supplemented by $1,000 million in credit facilities negotiated abroad by the Italian authorities. The dramatic recovery in Italy's reserves had permitted the repayment of its outstanding drawings from the Fund in September. During the year, the United States had made drawings to a total of $600 million under stand-by arrangements. Those drawings had marked the end of a long period, extending over most of the post-war years, in which the United States had been the main provider of financial assistance to other members through the Fund. Up to the beginning of 1964, more than $4,300 million had been drawn from the Fund in dollars, but in recent years European currencies had progressively replaced the dollar in Fund drawings. Even so, United States dollars continued to be drawn from the Fund, and during the period in which the United States had drawn other currencies to the value of $600 million, 300 million United States dollars had been drawn by other countries. The outstanding drawings by the United States therefore amounted to $300 million only.

11. The largest single transaction in 1964 had been a drawing of $1,000 million made by the United Kingdom under a stand-by arrangement approved by the Fund in August 1964. The United Kingdom payments position had deteriorated during the summer, so that full use of the drawings available under the stand-by arrangement had become necessary by November. By then, short-term capital movements had created a need for the support of special short-term credit facilities, provided to the extent of $3,000 million by eleven industrial nations and the Bank for International Settlements.

12. To meet the United Kingdom request for a drawing, the Fund had sold $250 million of its gold holdings, borrowed $405 million in currencies from eight participants in the General Arrangements to Borrow, and provided the remaining $345 million from its currency holdings. In all, the United Kingdom drawing had been made up of eleven currencies, a fact that was in itself an example of co-operation among Fund members. That was the first occasion on which the Fund had used the resources available to it under the General Arrangements to Borrow agreed to in 1962. The transaction had demonstrated the practical value of the Arrangements and had shown that the Fund's members were determined to defend the stability of the international monetary system.

13. In March 1964 the Fund had set up a stand-by arrangement for Japan. No drawings had been made under the stand-by and it had not been renewed. He noted with pleasure the vitality of the Japanese economy and he paid a tribute to the efficient and courteous manner in which the Japanese Government had acted as host to the Fund's annual meeting held in Tokyo in September 1964.

14. He had dwelt at some length on the position of the Fund's industrial members because they accounted for more than 70 per cent of the world's imports and were, of course, the chief markets for the goods sold

by the developing countries. The best service that the developed countries could render to the developing countries was to assure them of access to growing markets. The economic growth of the developing countries was in itself a cardinal feature of a healthy world economy. It was that concept of world economic interdependence that formed the philosophical basis of UNCTAD.

15. As in previous years, a large part of the Fund's work in 1964 had been concerned with the developing countries, which far outnumbered the industrial members of the Fund and which made the greatest use of its consultative and technical services. In the past ten years, outstanding drawings of the developing countries had steadily risen; at the end of 1964 they had been nearly $1,300 million, about seven times greater than in 1955. In 1964, nineteen developing countries had used the Fund's financial resources, and sixteen of the nineteen stand-by arrangements that the Fund had been maintaining for members at the end of the year had been for developing countries. The newest area of expansion of the Fund's activities in recent years had been Africa.

16. There were two questions of special concern in connexion with the developing countries. First, several of them had difficulties in meeting heavy repayments and servicing foreign debts. Those debts reflected in large part short-term credits made available by the industrial nations. Several developing countries which had placed undue reliance on short and medium-term external credit had reached a position where the incidence of repayments and interest payments would soon place a disproportionate burden on their foreign earnings. That discouraged foreign investment and jeopardized their economic growth. Suppliers' credits had an appropriate place, but they should not be used indiscriminately to finance longer-term development projects. The Fund had participated in several intergovernmental conferences called to arrange the refinancing of such debts. The real need, however, was for both debtor and creditor countries to exercise proper restraint to prevent the build-up of excessive indebtedness.

17. The second problem was inflation; it was now generally accepted that inflation could bring no lasting benefit to the cause of economic development. Nevertheless, measures to preserve stability, or to eradicate existing inflation, demanded of Governments considerable determination to withstand strong political, social and economic pressures. Those pressures had been accentuated by the very progress already achieved, which had made the peoples more impatient to raise their level of living. Commendable as that progress was, there must be effective resistance to inflationary pressures, or financial imbalance would become progressively worse.

18. The emergence of many newly independent countries had increased the need for technical assistance in the fields of central banking and monetary control. The new Central Banking Service, established by the Fund in 1964, was actively engaged in advising on several central bank proposals and in the administration of a number of institutions, for which it was also providing executive staff. The Fiscal Affairs Department was already functioning and provided assistance on all aspects of taxation, tax policy and budgetary control. The Fund also proposed to establish a panel of fiscal experts on whom it could draw for periods such as a year, at the request of member countries. The Fund had been fortunate in having the benefit of helpful working relations between the Fiscal Affairs Department and the United Nations and provided technical assistance to the Democratic Republic of the Congo in collaboration with the United Nations.

19. In addition, the Fund had established the IMF Institute in May to be responsible for all of its training activities. In 1964, the Institute had organized two special courses, conducted in French, for high officials from seventeen French-speaking countries in Africa and South-East Asia. The Institute had recently begun its first regular four-and-a-half months' course. Courses in French and English would be a regular feature of the training programme, which would cover financial analysis and national and international monetary and financial policy.

20. The Fund had also expanded its publications, notably by the introduction of a quarterly, The Fund and Bank Review: Finance and Development, which was available in English, French and Spanish. In addition, at the request of the United Nations, the Fund and the International Bank for Reconstruction and Development (IBRD) had assumed full responsibility for the publication entitled Direction of Trade.

21. Since 1947, fifty-six countries had used the Fund's financial resources, and total drawings amounted to over $9,000 million. About 60 per cent of that total had been drawn by industrial countries and the balance by nearly forty developing countries in all parts of the world. The Governors of the Fund were considering the proposals submitted to them by the Executive Directors for a general increase of 25 per cent in members' quotas, together with larger increases for sixteen countries whose quotas were considered to be out of line as a result of their recent economic development. If all proposed increases became effective, total quotas would rise from the current level of about $16,000 million to about $21,000 million. That would be a substantial strengthening of the Fund's resources and would increase its ability to meet requests from its members. Quota increases were normally payable 25 per cent in gold and the balance in the national currencies of the members concerned. That principle had been upheld, but the Executive Directors had decided on the adoption of procedures to mitigate the impact which the additional gold payments might have on the reserve positions of individual members. He hoped that members with not less than two-thirds of total quotas in the Fund would be able to complete the necessary legislative procedures in time to permit the quota increases to become effective later in 1965.

22. The increase in quotas was only one step in the continuous evolution of the international monetary system. The additional resources thus available to the Fund could help members in their efforts to correct temporary balance-of-payments disequilibria without resort to measures destructive of national or international prosperity. In addition to conditional liquidity, there was another important type of liquidity, namely, reserves which countries had at their dis-

posal. Would they be adequate in the future? The balance-of-payments deficits of the United States and, to a lesser extent, the United Kingdom had been the source of large additions to the monetary reserves of other countries. If those deficits were to be substantially reduced, the provision of other types of reserves, though still a long-term need, would become more pressing. The study of international liquidity had been in progress in the Fund and elsewhere, but there was a considerable diversity of views on the subject and simple or early answers were not to be expected. No satisfactory outcome was possible which did not recognize that the supply of reserves must be a matter of conscious international decision, and that the procedures through which the growth of world reserves was controlled and influenced must take into account the interests of countries at all stages of economic development. The recent practical examples of international financial co-operation were gratifying indications that the present international monetary system was capable of orderly evolution.

23. Mr. VIAUD (France) congratulated the Managing Director on his efforts to expand and diversify the activities of the International Monetary Fund. During the past financial year, the Fund had increased its financial assistance to member States experiencing balance-of-payments difficulties and its technical assistance, especially to the developing countries, and it had collaborated in studies on the operation of the international monetary system.

24. Financial assistance had been of particular benefit to the developing countries in enabling them to deal with the vicissitudes of their balance of payments, but it was interesting to note that those countries' repayments in 1964 had exceeded their drawings. The reason for that situation was probably the rise in world prices of raw materials, which had also made it possible to limit the extent to which countries resorted to compensatory financing. Such financing was nevertheless extremely useful, because the rise was not irreversible. Actually the problem of markets for the developing countries could be solved only by an international regulation of trade which would guarantee those countries stable and remunerative prices for their raw materials and preferences for their manufactures.

25. He stressed the role of France and the European Economic Community in enabling the Fund to meet the requests for drawings submitted to it. Since 1959, the Fund had used francs in an amount roughly equivalent to $850 million. The net amount of drawings made by third countries in Common Market currencies had exceeded $2,000 million. The Fund had thought it advisable to reconstitute its assets in those countries' currencies, of which its holdings at the end of 1964 had amounted to over $1,000 million. Those figures showed that the Community had become the main source on which the Fund could henceforth draw to meet members' needs.

26. As regards technical assistance, he drew attention to the enlightened opinions and useful recommendations of the Fund and to the very real services rendered by the expert missions and the IMF Institute. He welcomed the establishment of the twentieth executive director post, which enlarged the participation of the African States in the Executive Board and gave it a more balanced geographical representation.

27. Although the French Government had accepted the principle of increased quotas at the annual meeting held in Tokyo in September 1964, it had not approved the procedures. The special measures subsequently contemplated to mitigate the impact on the reserve currency countries of the payment in gold of one quarter of the quota increases had not in its opinion been justified, given the practice so far followed by the Fund with regard to the rules governing the way in which quotas must be paid.

28. The improvement of the world monetary system was a difficult problem which necessarily gave rise to divergent opinions, even though the ultimate objective was shared by all. France, for its part, had advocated more strict observance of the law as regards the way in which the main industrial countries settled their reciprocal deficits and balance-of-payments surpluses; it was still convinced that far-reaching reforms of the world monetary machinery would serve the interests of the industrial and the developing countries alike. If the existing defects were to lead to a major economic disorder, the latter, whose economies were still fragile, would, in all likelihood, suffer more.

29. Mr. HIREMATH (India) thought that the recommendation on quotas was timely and demonstrated the unanimity of views on the need to increase international liquidity and, for that purpose, the resources of the International Monetary Fund. Would those resources suffice to meet legitimate requests? No definite answer could be given, but the developing countries could hardly do otherwise than ask the Fund to help them to solve their unforeseen difficulties, and the strengthening of the Fund was therefore highly important for them. He welcomed the adoption of procedures for mitigating the impact of gold payments; the possibility of making special drawings whereby those payments could be spread over five years would be much appreciated by the developing countries. The procedure for mitigating the secondary effects of gold payments on the reserve currency countries seemed to be a wise compromise.

30. The increase in quotas was, however, only one step towards the establishment of an orderly international monetary system. The fact that the drawings of three industrial countries had exceeded twice the total drawings of all countries during the previous two years—to which the stand-by assistance given to the United Kingdom by some central banks and certain countries should be added—showed how essential was greater international co-operation and how justified were continuing studies in that field.

31. Two trends emerged from the probable development of world trade and international payments. On the one hand, in view of the gradual reduction in the United States balance-of-payments deficit, other means of increasing international liquidity would have to be found; previously the dollars held in reserve by many countries had been available. Consultations would have to be held for that purpose. On the other hand,

recent trade and payments experience emphasized the need to ensure that in order to solve their balance-of-payments difficulties the developed countries did not impose recession conditions on the developing countries.

32. Mr. Schweitzer had been pessimistic about the world demand for products from the developing countries in 1965. Half-way through the United Nations Development Decade, the annual rate of economic growth had reached only half the expected figure. A further decline in world demand would further hamper the efforts of the developing countries to accelerate their development. It would be unfortunate if in the attempt to solve their own difficulties the developed countries were to adopt policies which would bring about a sharp drop in demand for products from the developing countries. The structural changes which the latter were carrying out required large imports of capital; that was a sufficiently distressing problem of itself and there was no need to add to it the risk of cyclical changes in the world demand for primary commodities and the drop in expected export earnings which they would cause. The compensatory financing arrangements which had made it possible to liberalize drawing conditions for the primary exporting countries whose earnings had suddenly declined were unquestionably valuable but they could only be regarded as a palliative. The real solution lay in preventing the problem from arising and that depended essentially on the developed countries.

33. He commended the Fund for its efforts, which had enabled the developing countries to be given assistance in various new forms that were prized as highly as direct financial aid. He hoped that all members would give the Fund their full support.

34. Sir Keith UNWIN (United Kingdom) congratulated Mr. Schweitzer on his penetrating survey which brought out clearly how widespread was discussion in the world about improving the international monetary system and increasing the supply of liquidity. The International Monetary Fund had and should continue to have an important role in the handling of those problems. Its clearly defined functions—which some considered too limited—had made its great success possible; he referred in that connexion to the transactions of which his own country had been the beneficiary and emphasized that they had all been short-term operations, not long-term assistance. He emphasized also the importance of the periodic missions of experts which provided valuable information both for the Fund and for the countries concerned. The Fund had shown flexibility in adapting its policies to meet the changing needs of the world by providing the stand-by facility. It was right that members should not be able to use their drawing rights unconditionally: the Fund must impose conditions when its funds were limited—but the stand-by made it possible to draw substantial sums at very short notice. There was also the decision governing the selection of currencies for use in Fund transactions: in addition to dollars, a large number of convertible currencies had been used when they were in a strong position internationally, and by that means the Fund had contributed to international monetary stability.

35. Third, there was the decision taken early in 1963[2/] on the compensatory financing of export fluctuations affecting countries with small resources or no reserves. A considerable number of countries had taken advantage of the provision to apply for increases in their quotas over the past two years, but only two countries had applied for drawings in the special so-called "compensatory finance 'tranche'". That perhaps meant that the type of export shortfall envisaged had happily not been widespread in the past two years.

36. There was every indication that the Fund planned to continue its programme of adapting itself to changing needs. The Executive Board, for instance, had recommended increases in quotas to the Governors. It was essential that the Fund should ensure its own liquidity and see that its members' drawing rights moved in step with their growing requirements. It was therefore important that countries which were at any given time in surplus should move in step with those in deficit. He hoped that all members of the Fund, particularly those with strong currencies, would feel able to take up the increases which the Executive Board had allotted to them.

37. There were those who thought that there was too much international liquidity. However, increasing Fund quotas was one way of increasing liquidity which offered strong safeguards against the risk they feared since, apart from the gold "tranche", drawing rights in the Fund were conditional and the Fund was able to set its own conditions. While the quota increase should ensure a reinforcement for the time being in the supply of conditional liquidity in the world, the debate continued whether some means should be devised of increasing the supply of owned reserves. It must be emphasized that a claim on the Fund was a good asset in itself; it could arise from making currency available to the Fund. The United Kingdom hoped that the solution to the liquidity problem would be found within the framework of the Fund's activities.

38. There had been considerable discussion in the past two months of a possible return to gold. If that suggestion meant a return to something like the pre-1931 standard, it was difficult to escape the view that it would lead in the wrong direction. The search for a solution must be pursued with all goodwill and co-operation. The President of the French Republic had recently recognized that the Fund was the appropriate forum for such discussions.

39. An argument not infrequently heard in United Nations circles was that international discussions of the liquidity problem were oriented too heavily towards the needs of the developed countries, at the expense of the developing countries. There was also a tendency to confuse liquidity and long-term assistance for development. Liquidity was mainly a problem of the developed countries, but it was in the interests of the developing countries as much as any others that the problem should be successfully tackled. The supply of liquidity should be adequate to permit the expansion of international trade, which was one main condition for the development of developing countries.

2/ International Monetary Fund, Annual Report of the Executive Directors for the Fiscal Year ended April 30, 1963 (Washington, D.C.), pp. 196-199.

The balance-of-payments difficulties of some of the major capital-exporting countries could not fail to slow down that expansion. However, that interrelationship between trade and development on the one hand and international liquidity on the other must not have the effect of gradually turning the Fund into another institution for giving aid. The Fund had a well-defined function to perform and care must be taken not to diminish its effectiveness by entrusting to it tasks more effectively performed by others.

40. In conclusion, the Fund had a special contribution to make, directly as well as indirectly, to the problems of the developing countries. Those countries were having their quotas increased and were also being given the facility of the compensatory finance "tranche". The Fund's annual report, which was before the Council, referred to the problem of international indebtness of which Mr. Schweitzer had also spoken. The United Kingdom Government hoped that the Fund would be able to give more attention to that problem, in consultation with the IBRD, other international organizations concerned and creditor and debtor countries alike. He wished to commend the Fund for the technical assistance it had given in the fields of central banking and monetary control, its training facilities and especially the IMF Institute. He assured Mr. Schweitzer that he could count on the full co-operation of the United Kingdom in the future.

41. Mr. PEREZ LOPEZ (Mexico) noted that in 1964 international economic activity had continued to expand, despite weaknesses in certain areas. The continued prosperity of the industrial countries had helped to increase the volume of imports from developing countries and to improve the prices of primary commodities. In 1964, too, the increase in international co-operation at the monetary level had helped to correct external disequilibrium and to stabilize foreign exchange markets. The problem of the resources which should be available to the monetary authorities of the different countries to make up the deficits in their balance-of-payments was still being studied closely. In that regard, the conclusion had been reached that the present international monetary system was well suited to meet the needs of a steady growth in world trade and international finance, but that it would nevertheless be advisable to increase international liquidity to keep pace with the development of world trade and the increased flow of capital following the return to currency convertibility. That did not mean that it was necessary to make any immediate radical changes in the institutions and machinery of the present international monetary system, since the level of international liquidity appeared to be adequate for all foreseeable needs.

42. Adequate international liquidity was an important condition for the development of economic activity and world trade, on which depended the increase in exports of the developing countries which was an essential feature of their economic and social progress. That development was a long-term problem. It was the responsibility of the International Monetary Fund to help the developing countries to cover the provisional deficit in their balance of payments by granting them credits to supplement their own resources and to prevent their adopting hasty measures which might harm their economy. Since its establishment, the Fund had been an important source of aid for those countries, their drawings having amounted to 37 per cent of the total drawings. Over and above the normal drawing entitlement, the Fund had provided for the possibility of compensatory financing to cover short-term fluctuations in the export earnings of the developing countries. Moreover, in the opinion of his delegation, the Fund had made an important contribution to the steady progress of the developing countries by granting such aid only on condition that those countries adopted certain measures which would help to ensure monetary stability.

43. His delegation considered that monetary stability was an indispensable condition for the sustained development of a country's production of goods and services. It was difficult to achieve, particularly in the developing countries, where the desire to raise the level of living of low-income groups rapidly had led the authorities to adopt inflationary measures in an attempt to force the rate of growth of the available resources. The experience acquired during the twenty post-war years, however, showed that the countries which had systematically adopted inflationary policies had quickly discovered that such policies really delayed development, discouraged voluntary effort, imposed hardships on the social classes dependent upon fixed incomes and placed severe pressure on the balance-of-payments. It was true that the maintenance of the value of the currency and the existence of realistic exchange rates could not in themselves lead to economic development but did constitute two essential factors without which the best conceived long-term policies would be in vain.

44. The Fund, by spreading such ideas, had made a definite contribution to the balanced growth of the developing countries.

45. Mr. TAKIGAWA (Japan) recalled that at the nineteenth annual meeting of the IMF and the IBRD and its affiliates, held at Tokyo, the participants had recognized the need for strengthening international liquidity and for promoting economic progress in the developing countries. With regard to the first point, his delegation noted that international liquidity would be strengthened through the increase of the contributions of member States. It was desirable that the resources of the Fund should continue to grow in the future, and in that connexion his delegation hoped that factors such as the rate of economic growth and the pace of trade expansion of member States would be taken into account in determining the amount by which their contributions should be increased. The problem of the long-term strengthening of international liquidity was at present being studied by the Fund and other bodies. His delegation looked forward to hearing the results of those studies. It was convinced that the foundation of the international monetary system was the confidence which the countries of the world placed in it. That confidence had been fittingly demonstrated in the gesture of international solidarity on the occasion of the "sterling crisis".

46. The second problem discussed at the nineteenth annual meeting of the IMF had been the question of economic development in the developing countries. A great deal of work had already been done in that area.

For example, an important decision had been taken in February 1963 regarding compensato. financing in the event of short-term fluctuations in export receipts. In that area, as in others, the role played by the Fund in promoting the development of those countries had gradually been expanded. Since 1964 the Fund had provided technical services for the establishment and management of new central banks in developing countries. It also gave those countries assistance in the fiscal field and advice on economic questions. Those activities of the Fund helped countries to frame sound fiscal and monetary policies.

47. With regard to the United Nations Conference on Trade and Development, it should be noted that certain recommendations which had been adopted implied an intensification of the activities of the IMF, the IBRD and its affiliates.

48. Turning to the economic situation of Japan itself, he said that at the end of 1963 the Japanese Government had adopted a tight money policy with a view to improving the nation's balance-of-payments position and stabilizing the commodity price trend. The steady increase in governmental and personal consumption expenditures would probably maintain demand at its present level, but investments during the fiscal year ending 31 March 1964 would probably fall short of those of the previous fiscal year; some signs of slackening were noticed also in equipment investments, which had been rising steadily since 1963. With regard to the balance-of-payments in the fiscal year 1964, imports had remained steady, while exports had increased at a more rapid pace than had been expected. That trend was due to such factors and favourable conditions on the international market and the increasingly competitive position of Japanese industries on that market. The trade-account balance for the fiscal year 1964 was expected to show a credit of some $150 million. Deficits in the invisible trade account were likely to increase but with a favourable balance anticipated in capital transactions, the nation's over-all international account for the fiscal year 1964 would almost attain a balance.

49. In April 1964 his country had become a member of the Fund and of the Organisation for Economic Co-operation and Development. Thus the convertibility of the national currency had been restored and the Japanese economy had been integrated into the international economy. As a member of the international economic society, Japan intended to co-operate as much as possible with international institutions such as the Fund and thus contribute to the peace and welfare of the whole world.

The meeting rose at 1.5 p.m.

Litho in U.N. 10144—May 1965—2,125