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President: Mr. Foss SHANAHAN (New Zealand).

Present:

Representatives of the following States: Afghanistan, Brazil, Bulgaria, Denmark, El Salvador, Ethiopia, France, Italy, Japan, Jordan, New Zealand, Poland, Spain, Union of Soviet Socialist Republics, United Kingdom of Great Britain and Northern Ireland, United States of America, Uruguay, Venezuela.

Observers for the following Member States: Argentina, Canada, Czechoslovakia, Hungary, Peru, Philippines, Thailand, Yugoslavia.

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 Bank for Reconstruction and Development; World Health Organization.

AGENDA ITEM 3

Report of the International Monetary Fund
(E/3431 and Add.1) (*concluded*)

1. Mr. ORTONA (Italy) said that one of the most important features of the post-war years was the re-emergence of the classic concept that international trade must develop on a multilateral basis. With the decision taken at the end of 1958 by fourteen European countries to make their currencies freely convertible for non-residents, the foundations had been laid for the institution of a free and multilateral system of current account payments. As the Managing Director of the International Monetary Fund had pointed out, the system under which most countries now held their reserves, i.e., partly in gold and partly in reserve currencies, was the modern version of the gold exchange standard. It was also clear from Mr. Jacobsson's statement (1139th meeting) that the balance-of-payment difficulties of the country whose currency was today the keystone of the international payments system were not due to a trade deficit but to investments and commitments abroad and above all to short-term capital movements.

2. Under the stimulus of differentials in interest rates, movements of short-term capital had increased after the re-establishment of monetary convertibility. Such movements were bound to predominate in the system set up at the end of 1958 and reinforced by the decision of a number of countries, including Italy, to abandon the status provided for in article XIV of the Fund's Articles

of Agreement and embrace the status provided for in article VIII. Recent experience, however, gave grounds for hope that international co-operation would prevent the emergence of new imbalances. Two European countries had decided to reevaluate their currencies and many others, including Italy, had declared themselves ready to co-operate with other nations in an effort to solve monetary problems.

3. Italy had not suffered from recent short-term capital movements but was fully prepared to take part in studies aimed at securing monetary stability, as had been recently stressed by the head of the Italian delegation to the Organization for Economic Co-operation and Development. Italy's foreign exchange reserves, which had reached a high level during recent years, bore witness to the great liquidity of its economy, but the country had not yet achieved over-all economic strength. The drive towards the industrialization of southern Italy was still in progress and *per caput* income had only recently risen above \$500.

4. Italian commercial banks had been authorized to draw dollars from the Italian Foreign Exchange Agency for the purpose of financing loans to their customers, whereas previously such transactions had been effected only through borrowing abroad. The resultant outflow of some \$400 million had been of considerable benefit to foreign business men.

5. During the crisis following the revaluation of the mark and the florin, co-operation between central banks had had a salutary effect. Such co-operation should be further encouraged, whether for harmonizing interest rates or for neutralizing, through direct transactions, the effects of certain short-term capital movements. The International Monetary Fund could play an important role in pooling information and in intervening with its own operations.

6. His delegation had noted with interest the references made in the Managing Director's statement to the problems of the under-developed countries. It was gratifying to see certain of the new African States joining the Fund and it was to be hoped that many more of them would follow suit.

7. Mr. Jacobsson has stressed that during 1960 no developed country had made any drawing from the Fund while the under-developed countries had done so up to the amount of \$280 million. The reasons for drawings by those countries were not hard to understand: the instability of their export proceeds, the deterioration of the terms of trade for the producers of primary commodities, the fluctuations in both the volume and prices of those products on international markets, the smallness of their foreign exchange reserves and the pressing requirements of their economic development plans were well known. In such circumstances, it was difficult to build up adequate reserves to absorb the shocks of trade and the monetary fluctuations of the international market.

8. The International Monetary Fund had done much to remedy those problems. The procedure of stand-by

arrangements had been steadily developing. The Managing Director had referred to the help already being given to some of the under-developed countries in the form of advice and the loaning of experts. Much more might be done in that direction and the Fund might well consider the possibility of increasing its personnel with that end in view. The Fund might also examine to what extent its credit rules could be eased so as to meet the demands of the under-developed countries more effectively.

9. The Managing Director had emphasized the Fund's interest in the problems of commodity trade fluctuations, a field which undoubtedly afforded ample scope for study. The group of experts designated by the Secretary-General under General Assembly resolution 1423 (XIV) had pointed out in its report (E/3447) that, unless the basic nature of the Fund were altered, it would be impracticable to offset the major part of a decline in primary export proceeds by enlarging the degree to which the Fund's transactions were automatic. In any case, the problem of trade fluctuations presented the Fund with a challenge that had to be faced.

10. Inasmuch as the Articles of Agreement provided for certain exceptions in the case of war-ravaged countries the needs of countries now emerging from the stage of under-development might also be given special consideration. As the Managing Director had stated, the Fund was now engaged in examining the legal and policy aspects of article VI, section 1, paragraph b.

11. Finally, he congratulated the Managing Director of such a solid and dynamic institution as the Fund on his encouraging statement.

12. Mr. RODRIGUEZ LARRETA (Uruguay), supplementing the information on Uruguay provided in the reports of the International Monetary Fund (E/3431 and Add.1), said that the recent change of administration in his country had led to important shifts in economic and financial policy. The new administration had abandoned the policies of economic control pursued by its predecessor and had embarked on a policy of economic liberalization. In pursuit of that policy, it had converted the country's former system of multiple exchange rates into one of a single exchange rate and had replaced the previous system of import quotas with one of free imports. The new Government had firmly supported regional economic integration and, in particular, the establishment of the Latin American Free Trade Association; it had regularized the country's relations with the specialized economic agencies and had held very satisfactory discussions with the contracting parties of GATT during their sixteenth session.

13. As noted in the Fund's supplementary report (E/3431/Add.1), Uruguay has also recently reached agreement with the Fund on a par value for the Uruguayan peso and had concluded a stand-by arrangement with the Fund. It wished to express its satisfaction at the flexibility shown by the Fund in those negotiations and at the fact that Latin America's share of the aid provided by the Fund was now greater than ever before. His delegation had also been glad to note that during the period under review the Fund had, for the first time, authorized the use of a Latin American currency in connexion with a stand-by arrangement.

14. The policy of economic stabilization on which his Government had embarked, and which involved many difficulties, was regarded by his Government not as an end in itself, but as an essential pre-condition for the economic development which was its real goal. In that connexion, his delegation had been encouraged by the

Spanish representative's comments on the success of a similar policy of economic stabilization in his country.

15. It was his Government's conviction that the main stimulus to such economic development must come from within the under-developed countries themselves. However, the international community and particularly the industrialized countries could assist the under-developed countries in that process of internally generated economic development by providing financial aid; in that connexion it was his delegation's view that, while the Fund's basic function was to deal with short-term problems, it could not remain altogether indifferent to the problems of development. But what was more important, the industrialized countries could assist by helping to establish the conditions in which the under-developed countries could ensure their own development. The most important of those conditions was the existence of broad and stable markets for their exports. In that connexion, the industrialized countries could help by reducing the import barriers which limited those markets. Although the current negotiations within the framework of GATT offered little prospects of an improvement in that respect so far as the Latin American countries were concerned, President Kennedy's recent statement that an improvement of the trade position of the under-developed countries would be one of the principal concerns of the United States in its relations with those countries was a more hopeful indication for the future. Another of the specific formulas put forward as a means of achieving such an improvement had been the removal of all restrictions on imports from under-developed countries where such imports constituted no more than 3 to 5 per cent of the importing country's total imports of the commodity concerned.

16. Other aspects of the same problem were the unfavourable terms of trade under which the commodity-producing countries laboured and the wide fluctuations in commodity prices. In that connexion, the Latin American countries were keenly interested in the possibilities of aid from the Fund to the commodity-producing countries in the form of compensatory financing arrangements and were looking forward with interest to the recommendations of the group of experts which had been asked to report on the matter to the Commission on International Commodity Trade.

17. Mr. PENTEADO (Brazil) said that, during recent years, the dividing line between the activities of the International Monetary Fund and the International Bank for Reconstruction and Development had become more and more blurred, since the impact of stability in external payments of the economic development of the less developed countries was now considered at least as important as long-term capital investment. His delegation therefore suggested that it would be both simpler and more logical for the Council to discuss the annual reports of the Fund and the Bank simultaneously.

18. The major concern of the world today should be the acceleration of the economic development of the under-developed countries. The very low *per caput* income prevailing in most countries not only engendered nearly all current political and security problems but was also a major evil in itself. Like peace, prosperity was indivisible. Poverty was a universal menace and sapped the economic strength of even the most favoured areas. The dangerous fallacy that countries which helped others to increase their output would themselves lose markets was still current.

19. During the fourteen years of its activity, the Council had seen some spectacular achievements in the

field of international economic co-operation. After World War II, large-scale assistance by UNRRA had been followed by vast action under the Marshall Plan. The man responsible for the unbelievable success of that plan had now become Managing Director of the Special Fund and his delegation wished to pay him a particular tribute.

20. Meanwhile, the under-developed countries of Latin America had had to wait patiently on the understanding that the available resources were not sufficient for a simultaneous global effort. Conditions in those countries had therefore deteriorated and their problems had become more pressing. In order to solve them within the democratic framework of Latin America, immediate and forceful action would be required. Fortunately, the seriousness of the situation was now better understood and constructive plans were already being formulated both within the inter-American system and on a world-wide basis.

21. The greatest source of capital in the world was the United States of America. No co-operative international programme of assistance to Latin America would have much impact without a substantial United States contribution and without that country's whole-hearted technical co-operation. It was conceivable that such assistance might benefit the United States economy, but in the matter of financial reserves that country's position was not the same today as it had been at the time either of UNRRA or the Marshall Plan. Ways and means must be found to ensure that the necessary assistance to the under-developed countries did not entail a further loss of reserves by the United States. In any case, the final aim must be the rapid development and economic rehabilitation of Latin America. The International Monetary Fund was known for the great flexibility and intelligence with which it applied its regulations. That flexibility had been necessary after the war, during the period of reconstruction and the dollar shortage; it was again necessary during the more intensive years of economic development.

22. After a long period of development, Brazil had now reached a point where financial order, balance-of-payments and budgetary equilibria, and the removal of bottlenecks had become essential for further growth. The Brazilian Government was facing the situation with courage and trying as far as possible to achieve a dynamic equilibrium for the economy as a whole. Recent legislation had introduced a series of measures designed to make the exchange system more realistic and to boost exports. The ultimate goal was a substantial increase in the country's capacity to import. Brazil's pattern of resources and economic potentialities were such that its balance-of-payments rehabilitation might prove much easier than expected. All the necessary measures to secure that aim were being taken and it should not be long before results began to appear.

23. Mr. WILLIAMS (International Monetary Fund) said that he would transmit to the Managing Director the comments made by representatives on the Fund's operations. In connexion with the Italian representative's remarks, he noted that the Fund had already taken steps to augment its staff. He would point out also that the Fund whole-heartedly agreed with the Uruguayan representative regarding the necessary interrelationship between stability and growth in the under-developed countries, and that the possibilities of IMF action in connexion with commodity problems, to which reference had been made by the Brazilian and other representatives, were at present under study by the Fund.

24. The PRESIDENT suggested that the Council should adopt a draft resolution taking note of the report of the International Monetary Fund (E/3431 and Add.1).

It was so decided.

AGENDA ITEM 4

(a) Report of the International Bank for Reconstruction and Development (E/3432 and Add.1)

(b) Report of the International Finance Corporation (E/3433 and Add.1)

25. Mr. BLACK (President of the International Bank for Reconstruction and Development), introducing the Bank's report (E/3432 and Add.1), said that the political difficulties with which the United Nations was struggling were, in many cases, reflexions of economic problems. No lasting political solutions could be expected until more was done to remedy the economic ills afflicting so many countries. The need for much more assistance to the less developed nations was at present generally recognized but it was vitally important, in view of the magnitude of the needs for financial assistance, to ensure that aid was used in such a way as to contribute the maximum to the economic growth of the recipients.

26. The past year had been a busy one for the Bank. A lending rate of nearly \$700 million had been maintained for the third successive year. New loans made during the first nine months of the current fiscal year already totalled \$380 million. Continuation of a high volume of loans, notwithstanding the availability of several new sources of finance, indicated the extent of the demand for development investment. The bulk of the Bank's loans were still being made to Asian countries, but Africa had received almost one-third of the amount lent during the last fiscal year. There had also been increased lending in Latin America and he believed that the Council should take note of the increasing number of Latin American countries which had recently attained relative stability after several years of acute inflationary difficulties. The Bank looked forward to increasing activity in that region.

27. The increase in lending in the less developed regions had been counterbalanced by a considerable decrease in lending in Europe. It was gratifying to note that Western Europe was at present in a position to satisfy its own needs for capital. That region had not only made a negative contribution to the Bank by abstaining from drawing on the latter's loan funds, but had also made a major positive contribution by providing increasing amounts of money for lending elsewhere. Two-thirds of the Bank's borrowing in the previous fiscal year had been outside the United States and all borrowing so far in the current fiscal year had also been from outside that country. The Federal Republic of Germany had been the largest provider of funds for World Bank operations for the preceding three years.

28. In addition to lending and borrowing, the Bank had engaged in a number of other less publicized activities designed to assist the economic growth of its member countries. Its engineers and financial experts made regular visits to investigate the progress of existing projects and proposals for new ones. They were often able to render important technical assistance during the course of such visits, while other Bank personnel were directly engaged in technical assistance work, advising the less developed member countries on ways of coping with particular problems. Thus, assistance had been given in organizing national transportation surveys and in establishing, reorganizing and operating industrial

development banks. The demand for help in making general economic surveys continued. The Bank had also been asked to act as Executing Agent for eight Special Fund projects in seven countries.

29. Another activity of the Bank was the calling together at regular intervals of a consortium of countries interested in the financing of the Indian five-year plans. One such meeting was about to take place in Washington and a similar consortium to co-ordinate ways of assisting the Pakistan economic plan was to convene in May 1961.

30. The Bank's work in connexion with the Indus Basin had moved from negotiation to action. The Indus Waters Treaty had been signed and the Bank, as administrator of the Indus Basin Development Fund, had already called for international tenders for the very large projects involved.

31. Introducing the report of the International Finance Corporation (E/3433 and Add.1), he said that the investments made by the Corporation had been maintained at the level of the preceding year. The thirty-seven investments which it had now made in seventeen member countries totalled \$42.2 million.

32. A proposal was being submitted to the Board of Governors of the Corporation for an amendment of the latter's charter in order to permit investments in capital stock. The present prohibition of such investments was a serious handicap both to the growth of the Corporation's operations and to the mobilization of private capital for foreign investment.

33. An important event of the past year had been the establishment of the International Development Association. Forty-five countries, with subscriptions totalling \$900 million, had already signed the Articles of Agreement of the Association and many likely projects were under investigation. They would include not only the kinds of project financed by the World Bank, but also others, including a number in which other specialized agencies might have a direct interest. The task of processing IDA credits might prove more difficult than the processing of World Bank loans but the Bank's high standards in project preparation and execution would be applied. In the case of the first IDA projects, it had been decided to provide financing in the form of 50-year development credits free of interest or commitment charge. They would be repayable in foreign exchange, thus avoiding the accumulation of large quantities of local currencies. Amortization would begin after a ten-year period of grace and the credits would carry a small service charge, designed to provide the Association with income to meet its administrative expenses. He was pleased to note that the United States Administration wished to adopt similar terms for its bilateral development loans.

34. IDA's objectives could best be served by making funds available only to countries which, for reasons beyond their control, were not able to finance a satisfactory rate of development with their own resources plus conventional financing. IDA borrowers would therefore probably include both countries unable to borrow abroad at all on conventional terms and countries whose foreign debt service burden over the short medium term was already so high that they could not prudently borrow, on conventional terms, all of the external capital they required for their priority programmes. The needs of those potential borrowers were far greater than could be satisfied with IDA's present resources and he hoped that the Association's financing capacities might in due course be substantially increased. He also hoped that countries contemplating an expansion of their aid programmes would channel part of their additional funds through IDA.

Such a pooling of resources was by far the most effective and satisfactory means of co-ordinating development aid.

35. However, it was unwise to place all reliance on new institutions providing development finance on increasingly easy terms, as there was a limit to the funds that capital-exporting countries were willing to provide. There were also, in the less developed countries themselves, obstacles which hampered all efforts to raise world living standards. The most important of these was the tremendous increase in population.

36. For every four persons on earth in 1950, there were then five, and in forty years there would probably be ten. The world population was increasing at a net rate of approximately one person per second. It would probably pass the 3,000 million mark in 1961 and double that figure before the end of the century. In the past, the world population had remained stable at a relatively low level as a result of an uneasy balance between high birth rates and death rates. In Europe, the picture had begun to change in the late eighteenth century, when populations had started to grow, sometimes very rapidly. Elsewhere, however, the change had taken place only recently when death rates had suddenly begun to fall, with little change in birth rates. The new population revolution had often been achieved at very low cost. For example, a relatively inexpensive public health campaign to eradicate malaria had reduced the death rate in Ceylon by three-quarters over a single decade.

37. That trend towards the reduction of the suffering and waste involved in premature death or disabling disease was, of course, welcome, whatever problems it might create. Medical science was continuing to discover increasingly effective ways of promoting public health. Governments would rapidly apply the new techniques with the result that death rates would decrease and, given existing birth rates, populations would grow at an explosive rate. There was little likelihood that birth rates would soon decline to match the fall in death rates, as it was much simpler to attack disease than to alter the reproductive pattern of a society.

38. He was not convinced that population growth would eventually outrun the development of the world's resources. The prophets who forecast the exhaustion of those resources under-estimated the ingenuity of man and the potentialities of science. However, it was unrealistic to expect every country to be cultivated so effectively that the world could easily feed twice its present population.

39. But that did not mean that population growth at the present rate was necessarily desirable. Some argued that a large population implied a good market for a business man's product and that a declining or even stationary population was conducive to pessimism and economic stagnation. That might be true in the case of rich countries with resources to spare, but did not apply at all in the case of most developing countries. Some of the latter countries did have domestic markets large enough to support mass production industries but inadequate population was certainly not holding back the development of countries such as India. Industry and agriculture in such countries did not fail to grow because their products were not needed. The developing countries needed many things: not only capital, but also the skills and health to make good use of it. They did not by any means all need population growth. That was what they had, however, and the question was whether they could afford it.

40. The speed at which a country developed depended largely upon its ability to direct its growing resources to

investment rather than to consumption and countries with growing populations had either to reduce their savings for investment or to lower their living standards, both of which might already be inadequate. In spite of the accelerating flow of aid from the industrialized countries, it was increasingly doubtful whether domestic savings and foreign aid together would be sufficient to permit real progress in the under-developed areas if present rates of population growth continued for long. Unless population growth could be restrained, immediate hopes of economic progress in the crowded lands of Asia and the Middle East would have to be abandoned.

41. International agencies could not do much to solve the problem he had outlined. However, action could be taken by Governments and the time had come for them to give earnest attention to the present threat to their aspirations. Population growth did not alter the rules for successful economic development. On the contrary, it reinforced their strength by increasing the penalties for their infraction. In relation to the need, capital was short and had to be stretched as far as it would go. In the developing countries, therefore, the first question to be asked of any economic policy should be: "Is this the road to maximum economic growth?" If the answer was "no", any doctrines put forward to excuse the sacrifice of economic advancement should be looked at very closely. Providers of economic aid had a duty not only to see that the funds they provided were properly and efficiently used, but also to guard against the temptation to use their aid to achieve their own commercial or short-term political objectives, rather than to serve the real needs of the recipient countries. The latter should realize that they least of all could afford to accept low returns on their investments. They could not afford to waste scarce resources by putting prestige ahead of real need, by ignoring hard economic facts or by refusing to accept productive capital while they debated at length the respective roles of public and private enterprise.

42. Even if real sacrifices were made by the industrialized nations to increase the flow of aid, there was a grave danger that in the face of existing rates of popula-

tion growth, the resources available for economic development would fall short of the needs of the developing countries.

43. Mr. SILVA SUCRE (Venezuela) said that the statement made by the President of the Bank constituted a useful supplement to the report submitted by that institution, which pointed to further progress during the year under review. An important event during that year had been the establishment of the International Development Association, which would be concerned with the financing of projects outside the scope of the Bank's activities and would have a more liberal system for the subscription of funds.

44. The report also drew attention to the increasing desire of the industrialized countries to contribute to the economic development of the less developed areas of the world. He hoped that the Bank, in its next report, would be able to quote actual figures of increased effective participation by those countries in the great task of development.

45. The list of loans made by the Bank during the year, set out on page 10 of document E/3432, showed that about 22 per cent of the total lent had gone to industrialized countries. That revealed the wide scope of the activities of the Bank, which was not concerned only with the provision of funds for projects in the less developed areas.

46. His delegation welcomed the increasing technical assistance activities of the Bank. Of particular benefit had been the survey missions sent to certain States, help in establishing institutions for the financing of industrial development, the establishment by the Bank of a unit to study the development of capital markets and, in particular, the Bank's co-operation in certain Special Fund projects.

47. He hoped that Mr. Black's recent visit to Venezuela would prove to be of benefit both to the World Bank and to his own country.

The meeting rose at 1 p.m.