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Thirty-first Session

OFFICIAL RECORDS

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CONTENTS

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: Czechoslovakia, Greece, Hungary, Israel, Netherlands, 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 Monetary Fund; World Health Organization.

The representative of the International Atomic Energy Agency.

AGENDA ITEM 3

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

1. Mr. JACOBSSON (Managing Director of the International Monetary Fund) said that he welcomed the applications for membership in the International Monetary Fund submitted recently by New Zealand and several other countries. He was glad to note that economic conditions had been generally favourable during the past year, even though some countries had experienced continued difficulties or new problems. Industrial, agricultural and raw material production had risen and there had been an expansion in the service trades almost everywhere. The industrial countries of Western Europe, together with Japan, had shown the greatest increase in production and. with a rise of nearly 20 per cent in their imports, had contributed substantially to the 10 per cent increase in world trade. The rise in world demand had enabled the primary producing countries to increase their exports and thus improve their balance of payments, despite a slight decline in the general level of raw material prices. The introduction of external convertibility by a number of European countries had intensified competition on world markets for manufactured articles, a circumstance which had resulted in greater price stability. The most striking phenomenon of the past year and a half had been the fact that, despite boom conditions in many countries, there had been no increase in the general price level on world markets for primary products and manufactured goods.

2. The United States and Canada had felt the effects of what had been for them a period of adjustment to the halt in inflationary price increases and, hence, to the stabilization of prices. As far as the United States was concerned, the adjustment had involved a slackening of activity rather than an actual business decline, since "final demand", as measured by consumer buying, had increased throughout the year and the volume of fixed business investment had been maintained. However, there had been an inventory liquidation which had resulted in a 7 per cent decline in industrial production and in the highest rate of unemployment since the war. It was to be noted that the over-all deficit of $3,800 million in the balance of payments of the United States had been due not to a trade deficit or to insufficient net income from investment and services, but to transfers of capital made possible by the external convertibility of many foreign currencies. Nevertheless, pressure on the dollar had eased substantially and the dollar was still a very strong currency, inasmuch as the gold reserves of the United States ($17,500 million) were still nearly as large as the combined gold holdings of all other countries members of the Fund.

3. In the other industrial countries, the remarkable expansion in production had been accompanied by an impressive improvement in their liquidity position; the reserves of those countries were now two-and-one-half times as large as in 1950. As a result, a number of them had felt they could now formally accept the obligations involved in making their currencies convertible, in accordance with the Articles of Agreement of the Fund. Since February 1961 nine European countries, Peru and Saudi Arabia had decided to forgo the special privileges accorded them by article XIV of the Articles of Agreement; thus, twenty-one member countries were now subject to the provisions of article VIII, which forbade restrictions on current payments, discriminatory currency practices and multiple exchange rates without the prior consent of the Fund. The result had been an increase in the number of currencies which could be used in repayments to the Fund. In February, sterling had been used for that purpose for the first time, by Burma. The Fund had played an important part in that return to convertibility by granting financial assistance to countries which had experienced difficulties in recent years and by pressing for the removal of restrictions. However, the return to convertibility would not reduce the work of the Fund; on the contrary, its work would increase, for the Executive Board had decided to hold periodic discussions between the Fund and its members for the purpose of providing advice where it was needed and exchanging views on monetary and financial developments in member countries.

4. As for the non-industrial countries, while some had been able to increase their international reserves in 1960, the combined international reserves of those underdeveloped countries which were members of the Fund had remained remarkably stable during the past decade at between $10,000 million and $13,000 million and were in many cases clearly inadequate. Those countries would be well advised to strengthen their reserves in order to improve their credit standing and thus attract more foreign capital, and in order to afford themselves

better protection against fluctuations in the prices of their main export products. It was the inadequacy of their reserves that had impelled a number of under-developed countries to request assistance from the Fund during the past few years. In 1960, for example, drawings on the Fund had totalled $280 million but the highly industrialized countries had not accounted for any part of that sum; several of those countries, for example France and the United Kingdom, had in fact made advance repayments. In 1960, repayments had amounted to $650 million. Thus the improvement in the liquidity position of the industrialized countries had strengthened that of the Fund itself.

5. Since his last statement to the Council, new stand-by arrangements had been concluded with seventeen countries —in five cases, for the first time—while drawings had been made by an additional nine countries and stand-by arrangements with two countries had been terminated. With the admission of Portugal and Nigeria in March 1961, the Fund now had a membership of seventy. He then proceeded to give some particulars concerning the stand-by arrangements concluded with the five countries—Guatemala, Turkey, the United Arab Republic (Syrian region), Uruguay and Yugoslavia—which had not previously entered into such arrangements, and concerning the aid which the Fund had given to Chile following the earthquakes of May 1960. The Fund had received numerous requests from the newly independent countries for advice on questions of monetary policy, banking, exchange control, public finance and so forth, with the result that there had been an increase in its activities in the field of technical assistance. Most of the new African countries were members of either the sterling area or the franc area; the fact that some of them used the same currency was not an obstacle to their becoming members of the Fund.

6. There were, at present, two seemingly opposite tendencies in the world: on the one hand, political fragmentation resulting from the emergence of many new States and, on the other hand, economic integration achieved through the creation of free trade areas. The acceptance of currency convertibility in no sense diminished the need for monetary co-operation; on the contrary, national economies had become much more interrelated as a result of currency convertibility, and the effects of changes in prices and in monetary and economic conditions in one country were felt much more quickly in others. No single country could determine the price levels in world markets; the monetary authorities in the various countries must therefore be prepared, where necessary, to agree on the main lines of policy required to achieve reasonable price stability.

7. The increase in currency convertibility and the widespread relaxation of exchange controls had resulted in a substantial increase in movements of funds from one country to another for the purpose, for example, of taking advantage of more favourable interest rates; that was what had happened, despite the assurances given by Governments, as a result of the revaluation of the German mark and the Dutch guilder on 6 and 7 March 1961.

8. At the end of 1960, central banks and Governments, apart from those of the Soviet bloc, had held reserves amounting to nearly $60,000 million, of which $38,000 million had been in gold, $10,500 million in dollars, the equivalent of $7,000 million in sterling and some $4,000 million in various other currencies. The countries which held part of their reserves in that form did so not only because of the interest that could be earned on holdings of foreign exchange but also, among other reasons, because the two main reserve currencies were also the two main trading currencies. The system of holding reserves partly in gold and partly in foreign exchange was the present-day version of the "gold exchange standard"; it was much stronger than that of thirty years earlier, partly because national reserves were now backed by the resources of the Fund which amounted to nearly $15,000 million.

9. All members, large and small, had access to the Fund's resources provided that they furnished adequate safeguards; moreover, assistance was provided by the Fund for a variety of reasons and not merely in emergencies. The Governments of a number of countries, such as Australia, the United Kingdom and the United States, were clearly aware of that, for they regarded their countries' drawing rights in the Fund as part of their effective reserves.

10. The international monetary system could never be a rigid system; the tasks and methods of operation of the International Monetary Fund must be responsive to the changing needs and conditions of its members. For example, now that trade and payments restrictions and discriminatory practices had on the whole been removed and almost all international trade was conducted on a multilateral basis, with the principal currencies convertible under the Fund Agreement, the Fund had had to review its methods so as to be better able to meet the needs of its members in the new world of freer trade and convertible currencies. Similarly, it was no longer only dollars that were drawn from the Fund by member countries—as had been the case during the first ten or twelve years of its existence—but, very properly, other currencies as well. Whereas in 1957 all drawings had been made in United States dollars, in 1960 nearly one-half had been made in other currencies and in recent months the proportion of drawings in dollars had dropped to about one-third.

11. Attention had recently been given to the question of the extent to which the Fund could finance adverse balances of payments caused by sustained outflows of capital. Article VI, section 1, of the Agreement, entitled "Use of the Fund's resources for capital transfers", provided that "A member may not make net use of the Fund's resources to meet a large or sustained outflow of capital . . . Nothing in this Section shall be deemed . . . to prevent the use of the resources of the Fund for capital transactions of reasonable amount required for the expansion of exports or in the ordinary course of trade, banking or other business." The Fund was now engaged in examining the legal and policy aspects of those provisions. One of the Fund's main objectives was to promote exchange stability and that was why it must have substantial resources at its disposal. Its resources were already large but, while they should prove sufficient in most situations, the possibility remained that the Fund might at some time require additional sums in certain currencies. That contingency was foreseen in article VII of the Fund Agreement, which made provision for two possible courses of action: buying currency or borrowing it. He did not strongly favour the purchase of needed currency for gold, since gold holdings should be regarded as a reserve to be used only in situations where there was no alternative. Hence, it was now opportune to consider the other method, i.e., borrowing. The best procedure seemed to be the conclusion of a series of stand-by arrangements with the main industrial countries under which the Fund would be able to use increased amounts of the latters' currencies whenever the need arose.

12. It was imperative to look beyond immediate needs and try to equip the Fund to deal flexibly with all the varied situations which might arise under a system of freely convertible currencies; in that way, the Fund could help to ensure the viability of the present payments system. The Articles of Agreement provided sufficient latitude for the Fund to take constructive steps to meet the needs of its members under present and foreseeable conditions. States and international organizations would do well to examine those problems at their leisure at the present time, when most of them had no serious difficulties to contend with.

13. In recent years, the Fund had supplied assistance almost exclusively to non-industrialized countries and it should be pointed out that, when the Fund's resources had been enlarged in 1959, the quotas of the less industrialized countries as a group had been increased proportionately more than those of the industrial countries. The less industrialized countries, taken together, had used a larger proportion of their quotas than any other group of countries. The raw-material-producing countries had special difficulties, since the prices of their products had dropped slightly; experience showed that neither Europe alone nor North America alone could increase the volume of world trade but that boom conditions on both sides of the Atlantic were required if the prices of raw materials were to recover. The staff of the Fund intended to give very close attention to the report of the group of experts on international compensation for fluctuations in commodity trade (E/3447).

14. There was a growing awareness in the world of the need to assist the under-developed countries in their efforts to achieve better economic and social conditions. It was therefore the Fund's particular concern to help those countries to maintain a sound balance of payments and to stabilize their currencies. It must be borne in mind, however, that what the Fund actually did in a given country was not the only factor to be considered; the earnings of the primary producing countries depended very greatly on the general state of world trade, which was largely determined by business conditions in the leading industrial countries. Consequently, the Fund's efforts to promote international monetary co-operation to facilitate the expansion and balanced growth of world trade, to promote exchange stability and to achieve its other purposes were in the interest of all its members.

15. Mr. DE PINIES RUBIO (Spain) thanked the Managing Director of the Fund for his brilliant statement and said it was gratifying that, with the acceptance of the obligations of article VIII of the Articles of Agreement of the Fund by a new group of ten countries, a decisive step had been taken towards the realization of a multilateral system of payments. The Fund's activities, with respect both to financial operations and to consultation with member countries, were developing favourably.

16. Chapter II of the Fund's report mentioned (E/3431 and Add.1), *inter alia,* the stabilization programme which Spain had been carrying out in co-operation with the Fund since July 1959, a programme thanks to which inflation had been slowed down and economic expansion encouraged. The favourable trend of the Spanish economy—gold reserves had risen from $55 million at the start of the programme to $205 million—had enabled the Government to cancel the stand-by arrangement it had had to make with the Fund. It has also been able to forgo the credits granted by United States banks and to repay $75 million of the $100 million which had been made available to it under the European Monetary Agreement. Spain was thus doing its share to free resources which could help other countries. The Government was now concentrating on development and a long-term programme was to be drawn up, with the help of a mission from the International Bank for Reconstruction and Development which had already arrived in Spain. Spain's example showed what an important contribution the Fund and the Bank could make, when they were acting in co-operation with a country determined to raise its standard of living and develop its economy.

17. The Fund now faced a dilemma: whether to continue to perform its present function or to take up a more important one. Circumstances had strengthened the Fund's position but decisions could not be based on a single financial year, which had no permanent implications; the cyclical character of the Fund's activities had to be borne in mind. However, the Fund—whose efforts to meet changing conditions Spain appreciated—could introduce more flexibility into its operations and make its services more easily available to all countries without structural or constitutional changes. In any case, the Fund could help to solve the problem of balance in international economic relations and to create real confidence in currencies. In particular, it should take into account the needs of the small countries, many of which were dependent on a limited range of products subject to sharp price fluctuations; it would be well if such countries could have adequate reserves to fall back on so as to be able to await an improvement in the general economic situation.

18. Mr. VIAUD (France) congratulated the Managing Director of the Fund on his remarkable statement, which not only described the international monetary situation and the activities of member countries and of the Fund, but also gave some indication of the future policy of the Fund.

19. In 1960, economic expansion had been fairly general, but it had not been evenly distributed. Although conditions for a genuine international monetary market had now been largely restored, the lack of co-ordination between national policies, in conjunction with out-of-step regional economic cycles, produced some negative results. Those included appreciable movements of liquid capital, such as had been partially responsible in 1960 for the deficit in the United States balance of payments and for abnormal fluctuations in the reserves of the sterling zone, and might upset the equilibrium of financial relations and cause local economic disturbances.

20. On the other hand, while there had been some consolidation in the prices of certain primary products and, as a result, some stabilization of the resources of countries producing such products, that balance had been established at a very low level and had still not been achieved in the sphere of agricultural production.

21. It was the task of the International Monetary Fund and of the countries concerned to continue the efforts they had made in 1960 to correct imbalances and to strive for the restoration of harmonious international financial relations. The Fund had available for that purpose the additional resources which had accrued to it from the general increase in quotas. The new drawings had not been large; purchases had been made primarily by exporters of primary products and there had been no transactions with industrial countries. On the other hand, there had been a rather large number of stand-by arrangements, by means of which temporary financial crises could be solved and economic stabilization

programmes financed. Such conventional operations had been supplemented by the Fund's work as an adviser and expert; the Fund had been closely associated with the planning of reforms and other new measures taken by various member countries.

22. So far as France was concerned, it had continued to carry out its programme of economic expansion under conditions of monetary stability; the French economy had readjusted itself to the needs of international competition and had reaffirmed its vitality. Its gold and dollar reserves had increased in 1960 but further efforts were necessary, including efforts to counteract any attempts to raise prices. In 1960 France had been able to play a still larger part in the development of the countries of the franc zone and in international action for the benefit of other under-developed countries. In addition, it had been one of the fourteen European countries which in 1958 had decided to make their currencies convertible for non-residents, a step which had been confirmed, in a sense, by the transition of most of those countries to the system under article VIII.

23. With regard to Mr. Jacobsson's observation in his statement that the available additional resources in convertible currencies were not large enough to permit the International Monetary Fund to play the part he felt it should play, Mr. Viaud expressed the view that the suggested broadening of the Fund's powers and the proposed new financing methods called for prior consultation among the Governments of member countries and particularly of the industrialized countries, which would have to play an important part in the execution of such plans. The situation was no longer the same as that of fifteen years before, when the world had suffered from a persistent shortage of a small number of currencies; at the present time, the concentration of the right to make large drawings on a small number of currencies, even if they were convertible currencies, might jeopardize the economic and monetary stability of countries whose currency would thus be exposed to massive demand. It was understandable that the operations of the International Monetary Fund had been affected by the economic and monetary developments of recent years. It was necessary not only to remodel the old structure to suit the new requirements but also to find new forms of monetary co-operation both in the Fund and in the bodies concerned with regional economic co-operation, as also in the bilateral relations of the countries concerned.

24. Those problems of monetary policy were closely linked to the problems of the development of under-developed countries, for monetary stability was essential both to assistance to developing economies and to efforts to eliminate price fluctuations, which were a constant threat to the earnings of countries exporting primary products. The French Government, which attached the greatest importance to such problems, felt that the Fund could make an important contribution to the task of stabilization and play a very useful part in the economic progress of under-developed countries. It hoped that more under-developed countries would join the Fund without ending their participation in such monetary organizations as the sterling zone and the franc zone, within which they would continue to benefit from a free-trade and free-exchange system, headed in the same direction that the International Monetary Fund wished to go.

25. Mr. MATSUDAIRA (Japan) welcomed the Fund's contribution to the development of international financial stability, the progress made in the implementation of a multilateral system of payments, and the increase in the foreign exchange reserves of a number of European countries, which, thanks to the economic progress they had made, had been able to increase their assistance to under-developed countries. After recalling the importance of the dollar in the money markets of the world, he emphasized that the stability of the dollar was essential to the balanced economic growth of other countries.

26. The expansion of Japan's economy had continued during the past year at a regular pace made possible by an increase in the rate of employment, a rise in exports and the application of appropriate monetary policies.

27. He congratulated the countries which had accepted the obligations of article VIII of the Articles of Agreement of the Fund, thereby giving up the transitional arrangements of article XIV. The Japanese Government, although continuing under article XIV, had made the yen convertible for non-residents last July; moreover, it was engaged in a programme of liberalizing commodity imports and invisible transactions, and was taking steps to encourage foreign investments in Japan and to increase financial assistance to less developed countries.

28. However, the elimination of monetary restrictions was not enough to bring about free trade in the world; it had to be accompanied by commercial measures, including the abolition of import restrictions. Japan was particularly sensitive to discriminatory measures against goods whose low price was attributed to a lower wage-scale; what counted was not nominal wages but real wages.

29. In conclusion, he observed that the Fund had wisely undertaken a timely re-examination of its role, which was becoming increasingly important and he expressed the hope that it would co-operate more closely with GATT.

30. Mr. DUDLEY (United Kingdom) observed that the phenomena and problems with which the International Monetary Fund dealt were of great importance for the work of the Council and deserved the latter's attention.

31. He had noted with satisfaction the part which the Fund had played in economic development and the fact that in recent years its financial assistance had gone almost exclusively to non-industrialized countries.

32. The Managing Director of the Fund had given a most lucid review of the monetary developments during the preceding year and had drawn attention to the successes which had been achieved in developing international liquidity. Great countries as well as small relied on the Fund: the United Kingdom had benefited very greatly from it and it had now been able to repay, a year in advance, the whole of some $560 million which it had borrowed from the Fund in 1956. He also welcomed the trend that had developed towards convertibility. For the United Kingdom, its acceptance of the obligations of article VIII was mainly a formal recognition of a situation which had existed for some time.

33. The Fund played a very important part in helping countries to deal with their short-term balance-of-payments difficulties without having to impose exchange restrictions. As the representative of France had said, such assistance was of special value to under-developed countries which would otherwise not be able to cope with short-term fluctuations of trade.

34. The United Kingdom delegation agreed with the Fund's Executive Directors that it would be helpful if

the countries which had accepted the obligations of article VIII continued consultations with the Fund, even if not required to do so, in order to strengthen international monetary co-operation.

35. Finally, he congratulated the Managing Director on his imaginative approach to an expansion of the Fund's resources. As the Managing Director had rightly said, it was important to look beyond immediate needs and try to equip the Fund to handle the various situations that might arise under a system of freely convertible currencies.

36. Mr. KLUTZNICK (United States of America) congratulated the Managing Director and his staff on their excellent report. He was particularly grateful to the Managing Director for having placed the situation of the United States in its proper perspective, and associated himself with those who felt that the Fund had played an essential part in the stabilization of exchange rates and the restoration of convertibility, the latter being a measure which would facilitate the task of the United Nations in meeting its financial obligations.

37. The Fund's report showed how varied the world's economic problems were and was a contribution to their solution. He noted with satisfaction the great importance attached by the Fund to the study of certain persistent problems; that was an assurance of further progress in the years to come.

38. The PRESIDENT gave the floor to the Managing Director of the Fund, who would be unable to be present at the next meeting of the Council, at which discussion of the report would be continued.

39. Mr. JACOBSSON (Managing Director of the International Monetary Fund) wished to thank the Council for its encouraging interest in and support of the Fund's activities.

40. He had noted with satisfaction the statement of the representative of Spain concerning the economic development of his country. The experiment in Spain during the last two years had proved to be a brilliant success and, as Mr. de Piniés had said, currency stabilization constituted a first step towards economic development.

41. The representative of France had touched on many interesting problems. The Fund would be happy to continue its co-operation with the Economic and Social Council in finding positive solutions for problems relating to the prices of primary products. Movements of funds from one market to another, to which the representative of France had also referred, constituted one of the reasons for strengthening the Fund's resources. Such movements were of different kinds and might either reflect normal business, under convertibility conditions, resulting from differences in interest rates, or betray a lack of confidence in certain currencies. In any case, they made it necessary to reinforce the exchange structure. Another reason for strengthening the resources of the Fund was that all countries, large and small, should be able to exercise their right to draw on the Fund; this presupposed the existence of large holdings. Finally, the creation of additional European currency resources would enable members to make more liberal use of their right to draw, without uneasiness arising owing to the exhaustion of quotas. The application of new financing methods would of course be preceded by consultations with member countries and the Fund would keep in close touch with the various Governments.

42. The representative of Japan had rightly stressed the link between monetary and foreign-trade developments, as well as the need for co-operation between the Fund and GATT. The Fund was endeavouring to promote a system of multilateral trade which would exclude all discriminatory practices.

43. He was gratified that the United Kingdom representative agreed that the Fund should be in a position to assist both large and small countries and he felt sure that the Fund's resources could be adequately increased for that purpose. It had been expected, as early as the signature of the Bretton Woods agreements, that the situation would change when currencies became convertible. In any event, there would be no drawings in the currency of any European country unless adequate amounts of capital in that currency had moved to the country involved and such drawings would not, therefore, materially affect the country's monetary position. In any case exploration of that problem was only in its initial stages.

44. Finally he thanked the United States representative for his kind words and assured him that the Fund would try to find practical solutions for the problems before it.

45. The PRESIDENT thanked Mr. Jacobsson, on behalf of the Council, for his very interesting and clear presentation of the Fund's report.

Arrangement of business of the Council (E/L.891/Rev.1)

46. The PRESIDENT drew the Council's attention to document E/L.891/Rev.1 containing the Secretary-General's suggestions to the Council concerning the order in which it might examine the items on its agenda.

The meeting rose at 1.5 p.m.

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