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CONTENTS

President: Mr. Raymond SCHEYVEN (Belgium).

AGENDA ITEM 5

Report of the International Monetary Fund[1] (E/4747)

1. Mr. SCHWEITZER (Managing Director of the International Monetary Fund), departing from the practice he had followed in the past, said that he would not review developments since the publication of the report of the International Monetary Fund for the fiscal year ended 30 April 1969, because he was presenting the report to the Economic and Social Council earlier than usual. He would therefore speak more generally on some of the trends in the world economy and the important developments during the past months in the Fund's activities, and would then discuss certain aspects of economic development.

2. The considerable expansion of world output and trade, which reached an unprecedented level during the past year, was the result of an upsurge of economic activity in the industrial countries. That upsurge had started about the middle of 1967 and had continued into 1969, although some decline in the over-all rate of growth had recently been discerned. Unfortunately, symptoms of internal and external disequilibrium had appeared in the major industrial countries, which, because of their economic weight, exercised a fundamental influence on the international monetary system. Inflationary pressures had become generalized, with prices showing an over-all increase above any average recorded since the Second World War. Delay in taking the needed remedial measures had intensified those pressures. There had been a growing stringency in the international credit market and a general upward movement of interest rates, which adversely affected the flow of credit to the primary producing countries.

3. The movements of prices and costs had varied from one country to another, often leading to severe balance of payments difficulties. Speculation had continued to disrupt the exchange markets. The disturbances had been mitigated by financial co-operation among States and by drawings on the Fund, but much more needed to be done to eliminate the underlying causes of disequilibrium which encouraged such speculation.

4. Signs of improvement were being noted. The corrective programmes pursued in the United States and the United Kingdom were beginning to bear fruit. The devaluation of the franc and subsequent measures taken in France, and the revaluation of the deutsche mark, were actions which should contribute to the stability of the international monetary system. The better harmonization of economic aims in the industrial countries should ensure the maintenance of that stability in the period which lay ahead; it would depend, in particular, on the success achieved in the United States and the United Kingdom in controlling inflation and in improving their external position on current account. In that process it was important that aggregate world demand should be maintained at an adequate level and that the burden of adjustment should not fall on the primary producing countries.

5. It had been with a view to encouraging the sound growth of international trade and payments that the special drawing rights scheme had been proposed and approved at the annual meeting of the Board of Governors of the Fund in September 1969. Those drawing rights would be allocated to participants on the basis of their quotas in the Fund, over an initial three-year period beginning on 1 January 1970. Allocations would be made at yearly intervals and would amount to a total of about $9,500 million. The deliberate creation of reserves in regulated amounts and in accordance with agreed procedures marked a significant advance in international financial co-operation.

6. The new international liquidity would facilitate the adjustment process but would not in any way reduce the need for countries to pursue adequate policies of demand management. In that connexion he drew attention to the role of the Fund as a provider of conditional liquidity through temporary assistance to countries with balance of payments deficits. Such assistance was available to defend exchange rates which were realistic and to ensure the adoption of programmes designed to correct the payments disequilibrium without resort to deflationary measures that would impair national and international prosperity. During the fiscal year, purchases of currencies from the Fund had reached the record level of nearly $3,000 million. In large part that was a reflection of the continuing payments imbalance among industrial countries and the climate of uncertainty in the foreign exchange market. Financial assistance to developing countries had reached a total of $527 million involving thirty-one members, despite the firmness in the prices of primary products and the improvement in the developing countries' reserve positions. In the first five months of the fiscal year 1969/1970, purchases had amounted to about $1,500 million.

7. A certain balance should be maintained between the supply of conditional liquidity and that of the unconditional type, as each was essential for the smooth function-

1 International Monetary Fund, *Annual Report, 1969* (Washington, D.C.).

ing of the international monetary system. Thus, at the annual meeting, the Board of Governors of the Fund had asked the Executive Directors to undertake the fifth quinquennial review of quotas. A proposal on that subject was to be submitted by the end of 1969. An increase in the size of quotas would enable the Fund to contribute to optimal adjustments of balance of payments disequilibria, but it was generally recognized that in the adjustment of quotas due account should be taken of the interests of the developing countries.

8. In the area of commodity price stabilization, the Fund had established in 1963 a compensatory financing facility under which members exporting primary commodities could draw on the Fund whenever their exports fell below a medium-term trend. The facility, which had been expanded in 1966, was separate from and additional to members' access to Fund resources under the regular tranche policies. To date, outstanding drawings under the facility had totalled $384 million. More recently, on the basis of a study of the problem of stabilization of the prices of primary products, the Executive Directors had decided to establish a new facility to assist member countries having balance of payments problems in connexion with the financing of buffer stocks under commodity agreements that met appropriate criteria. Drawings from the Fund for that purpose could be made up to amounts equivalent to 50 per cent of quota, so long as the total of drawings for buffer stock financing and for compensatory financing of export fluctuations did not at any time exceed an upper limit of 75 per cent of quota. Those two complementary facilities, which should considerably alleviate short-term fluctuations in commodities, could not solve the problem of the long-term trend in commodity prices. Other solutions would have to be found, and the matter was one to which the Fund was giving constant thought.

9. With regard to the broader question of achieving the sustained and rapid development of the low-income countries, he said that responsibilities must be shared by all nations. Some developed countries, despite their growing affluence, had not provided all the assistance they could. Indeed, misgivings were being expressed about the very value of development assistance. Yet there was no question that the developing countries had been making serious efforts and achieving results. It was understandable that when balance of payments difficulties arose foreign aid should be the first victim of an economy programme, because the benefits of foreign aid to the donor country were intangible. Thus foreign aid had not grown in proportion to the income of the developed countries, and its quality had deteriorated because of the common practice of aid tying. The high rate of economic activity in the developed countries had provided a stimulus to the exports of developing countries, but the effects would have been greatly enhanced if access to the markets of the developed countries had been made easier.

10. It was most important that the industrial countries should adopt policies designed to keep inflation under effective control. With such policies and the new arrangements within the Fund to increase international liquidity there should no longer be any balance of payments justification for a slackening of efforts in development aid or in ensuring freer trade and payments. The solution of those problems was one of the main objects of the preparatory work for the Second United Nations Development Decade. The Fund would continue to study the problems closely, in consultation with its members. In that connexion, the enthusiasm aroused by the report of the Pearson Commission was most encouraging.

11. For many years, the Fund had been associated with the efforts of countries which were seeking to achieve a rapid growth in their economies, and it had gained considerable experience in that area. Formerly, for example, it had been believed that expansionary credit policies could accelerate the pace of development, even when they generated inflationary pressures; it was now recognized that inflation was in itself inimical to development, because it tended to drain resources away from sound projects and weaken export positions. Development plans served an essential purpose in the fixing of priorities and efforts to achieve compatibility between various objectives. Even the most realistic plans, however, were only projections into a still uncertain future, and actual circumstances might well diverge from expectations; accordingly, there must be a constant readiness to adapt the targets and policies of a plan when necessary if bottle-necks were to be avoided. It was therefore heartening to note the recent emphasis on the need for short-term operational plans within the broader framework of a medium-term or long-term development plan, and on the need for financial programming designed to ensure a balance between the demand for and the supply of resources.

12. It had often happened in recent years that balance of payments difficulties had hindered the achievement of development aims. Sometimes such difficulties could be attributed to the particular path of industrialization chosen; efforts to find substitutes for imports in order to save foreign exchange had often led to the misallocation of resources and a continued rise in imports without any stimulus to the export sector.

13. It was therefore essential to pay greater attention to agricultural development; by doing so some countries had been able to satisfy growing domestic consumption and even become exporters of agricultural products. A sound industrialization policy must take advantage of opportunities for trade with the outside world. The policy of the Fund with regard to exchange rates should be understood in that light; an exchange rate that was maintained without recourse to restrictions provided the best link between the growth of the national economy and that of the world at large.

14. In conclusion, he wished to emphasize that, with concerted efforts and a sharing of responsibilities by all concerned, the problems in the different areas to which he had referred could be solved.

15. Mr. GALLARDO MORENO (Mexico) said that the International Monetary Fund had striven constantly to solve the complex problems arising within its sphere of competence. Its tactics had been brilliantly outlined by the Managing Director. As the latter had noted, in certain large industrial countries internal and external imbalances had arisen, which exercised a fundamental influence on the whole international monetary system. Inflationary

pressures had increased and had spread to the rest of the world, all the more quickly because there had been delay in implementing the measures needed to remedy them. The money market had become tight, and as a result interest rates had gone up. The Fund had done everything in its power to prevent that situation, which had been brought about by the attitude of the industrialized countries.

16. In such circumstances, the developing countries were at the mercy of chain reactions. They had to sell a greater quantity of their products, the prices of which were already low and unstable, in order to obtain the foreign exchange they needed for development. The Fund, after completing a study on the stabilization of prices of primary products, had created a new facility to assist member States in solving their balance of payments problems in that area, which usually arose from the protectionist measures taken by certain countries to limit imports of agricultural products and manufactured and semi-manufactured products from the poorer countries. The Managing Director himself had said that despite their great prosperity the industrialized countries had not given as much aid as they should to the developing countries; he had also noted the disappointment felt by the latter at the scanty results achieved. In recent years foreign aid had not increased in proportion to the income of the developed countries; indeed, considering that it was in many instances tied, it could be said to have declined.

17. Owing to the intensified economic activity of the developed countries, the exporting countries had been able to increase their sales, but they would have done so to a greater extent if they had had easier access to markets. It should be realized that if the domestic reserves of the developing countries were accumulated in the form of unsalable stocks, they could not generate foreign exchange to alleviate the problem of external financing.

18. The increase in members' quotas in the Fund should be both general and selective, in order to achieve a structure which would reflect the economic standing of countries in both absolute and relative terms. In other words, responsibilities must be shared among the nations in a better and more effective manner.

19. Mr. VIAUD (France) said that once again the statement made by the Managing Director of the International Monetary Fund had not disappointed him. Events in the monetary field during the past financial year had been important enough to hold the attention of public opinion and give the appeal of immediacy to the debates on the stability of currencies and the changing relations between them.

20. The Council was interested in the problems confronting the Fund in so far as those problems threatened to make international co-operation more difficult. There was no need for him to mention the technical aspects of the plans for reforming the international monetary system or of the balance of payments adjustment mechanisms. He simply wondered what effect the measures taken by the Fund or envisaged by its members to ensure a better world balance of payments might have on international economic relations, especially on the relations between industrial countries and under-developed countries.

21. The report under consideration underlined the fact that the transactions carried out by the Fund had once again exceeded the already high levels reached in previous years. It was natural to welcome such intense activity, but it must also be realized that the reason why the financial assistance given by the Fund to its member States had reached such a high level was that the imbalance in payments between industrial countries had continued and an atmosphere of uncertainty had prevailed in the exchange market up to the present time. In the current year the developed countries had once again been the principal beneficiaries of the Fund's operations. The increase in the number of countries calling for international monetary co-operation was not likely to affect the solvency of IMF, so long as the conditions in which the repayments were made remained satisfactory. Such was the case in the current year.

22. It was also apparent that there had been only very limited recourse to the financing procedure devised to compensate for fluctuations in the export earnings of the primary producing countries, which was a sign that the downward trend in the prices of those products had not been too marked. In more general terms, the compensatory financing procedure, in its improved form, now seemed to be giving satisfaction.

23. Where IMF assistance to developing countries was concerned, the event which would mark an epoch in the history of the agency was the decision to establish machinery to assist the member States in the financing of international buffer stocks. The Council would remember that at the 1967 annual meeting, held at Rio de Janeiro, the Managing Director of the Fund had been invited, on the initiative of the Governors representing the member countries of the franc zone, to undertake a detailed study of the problem of the stabilization of the prices of primary products. The work done by the World Bank had not yet found expression in practical decisions, but he noted with satisfaction, by contrast, the positive character of the conclusions reached by the Fund on that subject.

24. The special features of the new facility were described in detail in the report before the Council. There were, of course, a number of requirements to be met before the Fund granted assistance, but the criteria adopted seemed *a priori* to be well-justified and acceptable. It might, in the light of experience, become necessary to improve the procedures for action by the Fund but the important point, in his delegation's view, was that the Fund had acknowledged the need to help member countries wishing to become parties to agreements on the stabilization of commodity prices—which would necessarily involve the establishment of international buffer stocks. The Fund had accordingly accepted a principle which France had been advocating for many years; and one practical obstacle which had in the past bedevilled negotiations on commodity agreements had thus been eliminated. It was to be hoped that UNCTAD would be able to use the opportunity it had thus been given to put into effect the programme it had adopted in resolution 16 (II) [2] of the New Delhi Conference.

2 See *Proceedings of the United Nations Conference on Trade and Development, Second Session*, vol. I and Corr.1 and 3 and Add.1 and 2, *Report and Annexes* (United Nations publication, Sales No.: E.68.II.D.14), pp. 34-36.

25. The French authorities had earlier indicated that the review of members' quotas in the Fund had been approved by them in principle, because it would help to correct some imbalances in the current distribution of reserves, and also to adapt the Fund's resources to the expansion in world trade. His Government had also announced that it was intending to participate in setting up the machinery for the special drawing rights. It had done so largely because of its solidarity with other members of the European Economic Community (EEC) and with its African and Malagasy partners in the franc area. His Government hoped, however, that the volume of the new unconditional international liquidity so created would not have the effect of aggravating a monetary situation already threatened by inflation, or of encouraging member States which were in deficit to slacken their efforts to improve their balance of payments. Like other speakers, he believed that the new machinery should be handled with the greatest caution and that, at the end of the initial phase of its operation, arrangements should be made for any adjustments which might be necessary. In any case, he was fully aware that the special drawing rights were not a panacea for the ills of the current system of world payments.

26. Suggestions had recently been made for greater flexibility in the par value system. His delegation was not in a position to form a judgement on ideas which had not yet been expounded in detail, but it did believe that experience showed that international trade flourished better under the fixed parity system than any other system. To understand why, it was sufficient to imagine the extent to which the trade of member countries of EEC and their trading partners would be disrupted by the adoption of floating exchange rates.

27. The new ideas which were emerging on exchange rates were a manifestation of the prevailing uneasiness about a world economic situation dominated by inflation. Inflation in the developed countries had damaging effects on the countries experiencing it, but it should be remembered that it also adversely affected the developing countries, to which inflation was already dangerous enough because of their weak economic structure. The Governor of the Central Bank of Tunisia had given an excellent analysis of the problem at the annual meeting of the Board of Governors of the Fund. Inflation, under its modern name of "overheating", could, of course, create a transitory euphoria by stimulating demand in the developed countries for the developing countries' products, but the rise in the price of the goods which the developing countries were obliged to purchase in the industrialized countries for their own development was in the end always higher than the increase in commodity prices from which they normally benefited at the outset. The terms of trade deteriorated very rapidly, to the detriment of the weakest economies. The Managing Director of the Fund had therefore been right in saying that inflationary tendencies should be kept under effective control.

28. Moreover, it was all too obvious that policies of budgetary stringency, a favourite weapon in the fight against inflation, affected those who were least able to defend their position effectively. In periods of austerity, appropriations for aid were always threatened and very often cut. Experience showed that it was not easy to bring them back to their earlier level when pressures were reduced. In that connexion, his delegation wished to reaffirm that it attached great importance to the implementation of the resolution recommending that the developed countries should grant the developing countries a volume of aid equivalent to 1 per cent of their national income; that goal should continue to be one of the instruments of international development action.

29. In conclusion, he said he believed it would be most helpful to French-speaking delegations to have a translation of the statement by the Managing Director of the Fund. A translation would simplify their work, especially the preparation of the reports which they would have to send to their Governments. He hoped that the Managing Director would bear that request in mind for the next session of the Council.

30. Mr. BRADLEY (Argentina) said that the report of the International Monetary Fund rightly stated that the previous decade had been a most eventful period in the life of the Fund. The Fund had made extremely vigorous efforts in all spheres of monetary co-operation and those efforts had been most effective. Clearly, the most important of its activities had been the creation of special drawing rights, which would inevitably have favourable effects on the developed countries' balance of payments, and consequently on the development of the developing countries. Argentina, for example, would have drawing rights of $64 million in the first year of application of the new facility, and $48 million in the subsequent two years. Nevertheless, that would help only slightly in improving his country's trade balance, mortgaged as it was by massive purchases of capital goods abroad.

31. The creation of the new unconditional liquidity should, however, be accompanied at the technical level by an increase in conditional liquidity–in other words, in the quotas. In that respect, his delegation hoped that the necessary steps would be taken to maintain the relative reserve standing of the developing countries in IMF.

32. Some developed countries had experienced balance of payments difficulties in recent years and had had to take domestic measures to overcome them, such as devaluation in the United Kingdom and France, and revaluation in the Federal Republic of Germany. Those measures were undoubtedly sound. That was especially true of the revaluation of the deutsche mark, which had not been dictated by domestic pressures but by the desire to maintain international co-operation in monetary affairs. It had been an effective measure, although there was every reason to believe that it would have been even more effective if it had been taken earlier. In any event, he hoped that the funds which had flowed into the Federal Republic of Germany in anticipation of a revaluation of the deutsche mark would now be returned to international monetary circulation.

33. It was stated in the Fund's report that the fight against inflation had been a major preoccupation of the Governments of the United States, Canada, the United Kingdom and France; other countries might be added to the list, including developing countries such as Argentina, which

had recently taken anti-inflationary measures to good effect.

34. The efforts of the Fund to stabilize commodity prices had, on the whole, helped the developing countries' trade. The measures recently announced and the studies being undertaken–especially those on the financing of buffer stocks–were most timely. However, the Fund might well include among its projects studies on the establishment of a system of preferences for the industrial products of the developing countries.

35. His delegation believed that, generally speaking, anti-inflationary measures taken by the developed countries should not be such as would adversely affect the development of the developing countries, particularly at a time when United Nations bodies were actively engaged in preparations for the Second Development Decade. In that connexion, the report of the Pearson Commission was a remarkable work which should be read and carefully considered by the Governments of developed countries and, above all, by their parliaments.

36. Mr. ABE (Japan) said that the year 1968 had witnessed an expansion of the world economy and of world trade which had exceeded all expectations. Certain problems had, however, arisen, including problems relating to the balance of payments, inflationary pressures in the developed countries and waves of massive speculation. The Japanese delegation was convinced that those problems would be settled satisfactorily by the Governments concerned through the International Monetary Fund.

37. During recent months, a number of important developments had occurred in the international monetary field, in particular the introduction of special drawing rights approved by the Board of Governors of the Fund at its latest annual meeting. That event was a landmark in the history of the Fund and was the result of joint efforts by Governments and the Fund over several years. While there was every reason to welcome the establishment of special drawing rights, it should nevertheless be remembered that it was tantamount to the deliberate creation of international reserves. Therefore, the contribution which the drawing rights would make to the expansion and prosperity of the world economy would depend on the policy pursued by each participating Government and on international financial co-operation. As the Managing Director of the Fund had rightly observed, they would not eliminate the need for Governments to pursue satisfactory policies of demand management. Furthermore, the Fund should be strengthened in order to discharge its new responsibilities. In that connexion, he noted with satisfaction that the need for a substantial increase in quotas had been recognized and that the Executive Directors of the Fund had been invited to undertake a review of the question.

38. The Japanese delegation was particularly glad that the Managing Director had mentioned the problem of the developing countries. It noted that, in the view of the Managing Director, effective control of inflation was the most important policy which the developed countries should pursue in order to expand their development aid. He also shared the Managing Director's view that expansionary credit policies and the inflation which resulted from them were inimical to development. The Managing Director had also emphasized that a sound industrialization policy should be based on existing opportunities for trade with the outside world. Those were very important suggestions, particularly at a time when the organizations in the United Nations system were engaged in preparations for the Second Development Decade. He earnestly hoped that they would be taken into consideration in the formulation of the international development strategy and relevant national policies.

39. The Japanese delegation was fully aware of the importance of the economic growth of the developing countries and thought that no effort should be spared to attain that objective. It should not be forgotten, however, that national economies were interdependent and it was therefore important that the economies of the developed countries should be able to develop harmoniously to the greater benefit of the world economy.

40. The Economic and Social Council, which had the central role to play in the matter of co-ordination, should see to it that the activities of the various organizations and organs of the United Nations were well co-ordinated in order to ensure the development of the world economy as a whole.

41. Mr. NYIRABU (United Republic of Tanzania) said that it was not always fully realized that the activities of the International Monetary Fund had a direct bearing on the development efforts and problems of the developing countries. In some circles, the Fund was still regarded as an institution created mainly to serve the interests of the developed countries. In support of that view, it would be noted that during the early stages of the negotiations regarding the creation of special drawing rights, the developing countries had been excluded from the discussions and their right to benefit from the scheme had only been recognized at the eleventh hour. Statements such as that just made by the Managing Director therefore helped to a great extent to dispel the scepticism which prevailed with regard to the role of the Fund in the efforts made by the developing countries to accelerate their economic growth.

42. The special drawing rights would enter into force on 1 January 1970. His delegation expressed satisfaction at the determination with which the international community had tackled the problem of the inadequacy of international liquidity. It was, however, deeply concerned at the partial solution which had been adopted. In the current state of affairs, the facility based on special drawing rights ruled out the possibility of establishing a formal link between the creation of liquidity and development aid. It had been argued that once additional liquidity had been created, the developed countries would inevitably be led to liberalize their trade and increase the volume of their development aid. In the view of his delegation, increased reserves would not be a sufficient condition for the liberalization of trade and capital flow. Budgetary deficits and balance of payments difficulties would continue to hinder the improvement of foreign aid. Even after the allocation of special drawing rights, some of the major donor countries would continue to experience balance of payments difficulties which would serve as a pretext for them to impose

restrictive practices. Furthermore, it was not always easy for the Governments of those countries to obtain parliamentary approval for their aid programmes. It would have been more expedient to grant aid indirectly. For all those reasons, his delegation deeply regretted that the opportunity had not been taken to isolate development financing from the domestic financing problems of the donor countries. It hoped, however, that the new machinery could be improved. In particular, the possibility of allocating some special drawing rights to institutions such as IDA, UNDP and the regional development banks should be explored. That question had been studied by UNCTAD and it would be advisable for the Fund to reconsider it in the light of the UNCTAD study.

43. The review of quotas had a direct impact on the aspirations of the developing countries, firstly, because of the link between increased quotas and wider access to the liquid resources of the Fund which was a very important source of short-term resources for the developing countries, secondly, because of the link between the quotas and the distribution of special drawing rights, and lastly, in the context of the role which the developing countries should play in the decision-making process of the Fund. The relative share of the developing countries in the total amount of the quotas should therefore be increased; in order to do that, the classical criteria which governed the determination of quotas should be abandoned and more satisfactory standards adopted. Unless more suitable economic indicators than trade and payments were adopted, the relative share of the developing countries might well decrease, since their share in world trade was declining.

44. The Tanzanian delegation appreciated the constructive role being played by the Fund to solve the problems caused by the instability of the prices of primary commodities. In particular, it welcomed the new machinery for financing buffer stocks; but it noted with concern that the Fund's aid was subject to certain conditions, and it strongly objected to the stipulation that a country would have to experience balance of payments difficulties before it could qualify for the facility. It thought that the solutions proposed by the Fund did not solve the real problems—namely, that on a long-term basis, commodity prices would tend to fluctuate in relation to the prices of industrial goods. The joint studies carried out by the Fund and the World Bank ignored the problems caused by the developed countries which were devoting hundreds of millions of dollars to the production of synthetic substitutes. The Tanzanian delegation hoped that the Fund would consider the problem raised by the policy of agricultural protection practised by the developed countries.

45. The Tanzanian delegation noted that during the previous financial year the net income of the Fund had risen to more than $70 million, part of which had been distributed among member States and the remainder transferred to the General Reserve. It was questionable whether it was advisable to distribute income among member States, since the principal beneficiaries were developed countries. It might perhaps be more appropriate to distribute the net income among the multilateral financing agencies, such as IDA.

46. Mr. ALLEN (United Kingdom) said that his delegation had studied with interest the report of the International Monetary Fund and had listened with equal interest to the statement by the Fund's Managing Director. The report covered the period ended 30 April 1969, while the Managing Director's statement covered the more recent developments. There had been an interesting evolution in the United Kingdom's position in the world trade and payments system; as Mr. Schweitzer had said, the measures which it had taken had proved effective and its balance of payments had now moved into surplus. Mr. Schweitzer had also emphasized that the pursuit of appropriate demand management policies and progress in harmonizing economic aims in the industrial countries would ensure the maintenance of the stability of the international monetary system, and that a sound evolution of the world economy over the coming years would depend in particular on the success achieved by the United States and the United Kingdom in controlling inflation and in improving their external positions on current account. His delegation welcomed the Managing Director's recognition of the success of the United Kingdom Government's economic policies. The results of the devaluation in 1967 were now being seen. Consumption and public expenditure had been kept virtually level and new measures in domestic credit and demand control were also proving effective. There was reason to believe that an important diversion of resources to exports had taken place.

47. Nevertheless, his Government was very much aware of its responsibilities to the world in the following areas: the pursuit of appropriate demand management policies, progress in harmonizing economic aims, measures to combat inflation and the improvement of the position on current account. It was in the interest of the world, including the developing countries, that his Government should control inflation and continue to improve its external position. It would not be appropriate prematurely to abolish the measures which had contributed to the recent current account improvement. It should, however, be pointed out that the import deposit scheme was not applied to the majority of primary products.

48. The activation of the scheme for special drawing rights was an impressive example of international co-operation but it should not be regarded as a panacea. Such a scheme would not in any way dispel the need to pursue adequate national policies of demand management. It was an exaggeration to say that only the developed countries would benefit from the special drawing rights. As the United Kingdom Chancellor of the Exchequer had recently pointed out at the Annual Meeting of the Board of Governors, the special drawing rights scheme might help to create more favourable conditions for the growth of development aid.

49. The report had rightly stressed one point which applied to all countries, namely, the necessity for medium-term plans of objectives and policies which could be adapted to developing situations. Given the limitations of human pre-vision, plans prepared on the eve of the Second Development Decade must be sufficiently flexible.

50. Mr. SKATARETIKO (Yugoslavia) said that, on the eve of the International Monetary Fund's twenty-fifth anniversary, the significance of the Fund's role in sustaining stability and an effective international monetary system

was fully apparent. It would be well to ask whether the causes of occasional disturbances should be sought in the existing international monetary system or in the operation of the adjustment process, for which primary responsibility lay with the national policies of individual countries. There was no doubt that the existing international monetary system was far from perfect. However, the functioning of that system would clearly improve if the countries whose participation in world trade was greatest were to combat inflationary trends in their economies with more determination. It was regrettable that those trends entailed credit and trade restrictions and led to higher interest rates, which adversely affected the balance of payments of the developing countries.

51. The recent decision to activate special drawing rights with effect from 1 January 1970 was gratifying. In recent years, there had been much discussion of the problem of international liquidity, caused by the reduction of the relative gold component in reserves. There had also been the danger that the problem would lead to an additional restriction of foreign trade. While the activation of special drawing rights could not, of itself, solve the problem, it might alleviate the difficulties.

52. There were, however, two pending questions. First, would the proposed distribution of special drawing rights—which depended upon the quota of each member State—solve the liquidity problems of countries with low quotas, which were in the majority?

53. Secondly, how was the activation of special drawing rights to be linked to development finance? The important question was not so much the creation of an institutional link as the fact that the developing countries expected that the States with the largest share of the special drawing rights would allocate to development finance the share of resources thus obtained or part of the resulting increase in their own resources. The Fund and the World Bank were encountering new problems which must be solved. It was to be hoped that the developing countries would be able to participate actively in the discussion of those problems.

54. Mr. SEN (India) said that the activation of the special drawing rights signified not only an increase in international liquidity but also the acceptance of internationally managed money. The deliberate creation of reserves must be regarded as a major step forward in the progressive evolution of a more rational international monetary system.

55. His delegation would have favoured a somewhat higher level of special drawing rights and their creation for a period of five years rather than three. It was now feasible and desirable to establish a link between the creation of international liquidity and development finance, at least informally, by a simultaneous decision of the developed member countries. It was unfortunate that the creation of the special drawing rights should have been regarded as the exclusive concern of the industrially developed States, and particularly of those whose currencies were the most important. To a great extent, discussion and negotiation in that connexion had taken place outside the Fund. As a result, despite the strong support of the developing countries, which accounted for more than 80 per cent of the Fund's membership, the question of a link had been shelved at the time of the creation of the special drawing rights. It was extremely important that that matter should receive the attention it deserved, and by next year there should be some evidence of progress. The question had been considered recently by an UNCTAD expert group which, in its report to the Trade and Development Board, had recommended the establishment of such a link. The group had suggested two methods of implementing its recommendation: the developed countries should reach a collective decision either for a direct contribution to IDA of some part of their annual allocations of special drawing rights, or for a contribution in national currencies to IDA of some proportion of those allocations. The group had suggested that the method most acceptable to the Governments concerned should be applied. The Sub-Committee on International Exchange and Payments of the Joint Economic Committee of the Congress of the United States had also supported the proposal to link reserve creation and development assistance. Even though that proposal did not commit the Executive, it was an encouraging development.

56. The report of the International Monetary Fund for 1969 reviewed the question of the need for conditional liquidity, in other words, the need to increase the quotas which were the basis of the drawing facilities under the Fund. His delegation felt that, along with the creation of special drawing rights, which were a source of unconditional liquidity, there was clearly a need to create additional conditional liquidity. In that context, the report concluded that the forthcoming Fifth Quinquennial Review of the Fund's Quotas provided a welcome opportunity to enlarge the over-all size of the Fund by means of both general increases in quotas of a reasonable size and selective adjustments necessary to bring the quotas more into line with the present relative international economic importance of members. It was to be hoped, therefore, that the Fifth Quinquennial Review of Quotas would take due account of all factors, including the need to improve the position of developing countries in consonance with the changing times. The Fund's original membership had consisted of 39 countries, 29 of them developing; there were now 113 members, of which 88 were developing countries. Yet the share of the latter in the quotas was less than 28 per cent.

57. In principle, a country's quota should seek to define its legitimate need to draw on the resources of the Fund. The Fund quotas must also take into account the Fund's need for resources in the form of usable currencies. Further, because of the system of weighted voting, the quota also reflected the relative share a member should have in the Fund's decision-making process. Finally, the quotas would become the basis for allocations of special drawing rights. No simple criteria could therefore be applied. Account would have to be taken of both the need and the ability of countries. Above all, the structure of Fund quotas should be such as to allow the developing countries an effective voice in the Fund's decision-making process.

58. While the developed countries of the West had to solve problems of affluence, the bulk of the world's population lived scarcely above the subsistence level. On the eve of the Second Development Decade, it was to be hoped that the Fund would continue to be both constructive and imaginative.

59. Mr. AHMED (Pakistan) said that he had been very interested in the realistic statement by the Managing Director, who had clearly demonstrated the magnitude of the international monetary problems.

60. Progress in the monetary and economic fields was, however, disappointingly slow. The fiscal year 1968/1969 had been a period of rapid expansion and financial imbalance. Disturbances in the foreign exchange markets had led to a series of international currency crises. Severe balance of payments difficulties in certain industrial countries had been accompanied by an unprecedented rise in prices and interest rates. Speculation had added to the pressure on major currencies, such as the franc and the pound. Those disturbances had had an adverse effect on the developing and primary producing countries. Increased interest rates had led to restrictions in the availability of credit and had even caused an outflow of funds. There had been fluctuations in world trade, even if exports of primary producing countries had increased to an annual rate of 13 per cent in 1968 and the first half of 1969. Disturbances in the monetary situation of the developed countries had repercussions throughout the developing world. Increased co-operation among international monetary authorities had, however, culminated in proposals to provide an adequate reserve base for the world monetary system. Furthermore, the major countries had taken measures to combat inflation.

61. The creation of special drawing rights was a heartening move. It was a historic event and a constructive step towards a strengthening of the monetary system. The creation of that scheme should, by means of supplementary reserves, allow a constant and adequate level of international monetary reserves to be maintained. The use of those reserves as backing for international liquidity should ease pressures in countries having balance of payments deficits. The major countries should thus avoid taking restrictive measures detrimental to world trade and to the developing countries. An adequate level of international liquidity should help to prevent a reduction in the volume of assistance or a rise in interest rates. The question of establishing a link between the creation of international liquidity and development finance should be considered as soon as possible. In that connexion, there were two possible approaches. The developed countries could make a direct contribution to IDA after receiving their allocation of special drawing rights. Another possibility was for them to pass on part of their share in the special drawing rights to the developing countries directly.

62. As for the problem of quotas, the Finance Minister of Pakistan had recently suggested to the Board of Governors that the share of the developing countries in the special drawing rights seemed much too small and that their quotas should be raised. Such an increase should not be less than 30 per cent. Current formulas for determining quotas adversely affected poorer countries precisely because they were poor.

63. The stabilization of prices of primary products was another vital matter for the developing countries. It was regrettable that the initiatives taken by the Fund and the Bank fell short of the requirements of the situation. The Articles of Agreement of the Fund prevented it from financing buffer stock schemes directly. Thus there had been no progress towards protecting and stabilizing the terms of trade between primary products and manufactured goods. It was to be hoped that new initiatives would be taken and that the Fund and the Bank would make a greater effort to contribute to the stabilization of prices of primary products and to strengthen the financing of buffer stock schemes.

64. The various proposals with regard to the balance of payment adjustment processes of the developed countries or the changes to be made with a view to achieving greater flexibility in the present exchange rate system should as far as possible take into account the special needs of the developing countries.

The meeting rose at 12.55 p.m.