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series 5540

Irving S. Friedman Chron Files

1966 (1)



The World Bank Group
Archives
1598697
R2000-036 Other # 1 Box # 210170B
Irving S. Friedman - Chronological File - 1966 Correspondence - Volume 1

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WBG Archives

March 31, 1966

Dear Mr. Reimann,

Thank you for your kind letter of March 22 inviting me to attend your cocktail party on May 25. I regret that I will not be able to accept this invitation as I will not be in the country at that time.

I gather that you have also written to Mr. Friedman and he will be replying separately to you.

Yours sincerely,

/s/

George D. Woods

Mr. Guenter Reimann
International Reports Inc.
200 Park Avenue South
New York, N.Y. 10003

P.S. Since signing the above, your telegram of March 31 has been received advising me of the change of date to June 7, but I am fully committed for that date.

ISFriedman/dm
3/30/66

Mr. C. F. Owen

March 31, 1966

Irving S. Friedman

Attendance of Fund Representatives at Economic Committee Meetings

On further consideration I think I will go along with the suggestion that the Secretary's Department in the Fund should be the Channel of Communication for attendance of Fund representatives at Economic Committee meetings.

Let us follow the rule that the Fund representatives will join in except when we have closed meetings limited only to members of the Committee.

TIMETABLE ON SUPPLIER CREDITS STUDY

1. Draft by April 20. This draft to be seen and reviewed by Messrs. Schmidt, Rist, Tamagna, Halley and possibly Kamarck before being sent to Economic Committee.
2. Review of this draft by Economic Committee, other members of Bank staff interested (working group) and IMF (to be invited to Economic Committee) review May 10.
3. Revised draft by June 1 - based on above review.
4. Circulation of draft to countries mentioned in report to check factual accuracy. Could be done by visits by staff if mailed circulation seems inadvisable.
5. Final review in July by Economic Committee and President's Council. Translation in July.
6. Send to UNCTAD in August or September -- in any case before Governors' Conference.

Annual Rpt

Mr. Liefertinck

March 31, 1966

Irving S. Friedman

Aid to Less Developed Countries from non-DAC Member Countries

As you know, some countries which are so-called IDA Part II countries and non-DAC members have in recent years announced assistance programs to less developed countries. This is a welcome development which we would like to discuss briefly in the chapter "Trends and Outlook in Development Finance" of this year's Annual Report.

While some information on such aid is made available from time to time, data on these programs is not reported in an orderly way to any international organization. For this reason it would be most helpful if you could assist us in obtaining information from the Government of Yugoslavia as to whether it has done anything in the way of providing financial or technical assistance to other developing countries and, if not, whether it has current plans to do so in the future. If there are current or planned programs we would appreciate having a brief survey of its present and planned assistance programs, their magnitude in terms of commitments and disbursements, their nature (such as grants, loans and their terms, suppliers' credits, technical assistance, etc.) and their distribution by recipient countries.

Because of the time schedule for preparing the Annual Report, such surveys are needed by the end of April at the latest. I appreciate that this is rather short notice but we were not aware of the desirability or feasibility of including such material until we had reached our present stage of preparing the Annual Report.

MW 1

March 31, 1966

Mailed to following people Post War Planning memo of March 1(to Mr. Woods)
on complimentary slip:

- Mr. Anthony Solomon
- " Walt Rostow
- " Gustav Ranis
- " Merlyn Trued
- " Livingston T. Merchant

You may be interested in the attached. It is a personal memorandum to Mr. Woods from myself and has not been circulated within the Bank.

Any reactions would be welcomed.

Mr. Trued's note as follows:

You may be interested in the attached. It is a personal memorandum to Mr. Woods from myself and has not been circulated within the Bank. It obviously could use more working on if the basic idea is worth pursuing. What do you think?

MWJ

Mr. Woods

March 31, 1966

Irving S. Friedman

New York Times article

Did you see the attached statement by Mr. Perkins, the President of Cornell, which was in Monday's New York Times.

In view of what you have told me about his response to the Committee's visit to the World Bank I wondered if you might wish to send a note to him. I am attaching a draft for your consideration.

DRAFT: ISFriedman/dm
3/31/66

Dear Jim,

It was with great interest I read your statement in The New York Times of March 28.

I think you have expressed with remarkable brevity and clarity the essence of our difficulty in approaching problems of development finance. I too am one of the optimists who think that with imagination and effort these very difficult problems can be successfully met. Like yourself I don't believe there is any sensible alternative.

I hope that I will have the pleasure of seeing you again soon.

Yours sincerely,

George D. Woods

Mr. James Perkins
President
Cornell University

MISC

Mr. Pereira Lira

March 31, 1966

Irving S. Friedman

Bank Staff Studies

If you wish you may send Professor Eisler a copy of the attached study but please make clear that this is an economic study and not a report which reflects exactly how our procedures operate.

Attachment "The Evaluation of Agricultural Projects: A Study of Some Economic and Financial Aspects"

Pending

March 31, 1966

Dear Mr. Singer,

I wanted to acknowledge quickly the receipt of your letter of March 28. Please be assured that we are looking into it and will be in further communication with you on this.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. H. W. Singer
Director
Policies and Programming Division
Centre for Industrial Development
United Nations
New York

cc: Mr. Kamarck: Could you have someone prepare a necessary reply.

MW 1

March 29, 1966

Mr. Woods:

From what I know the attached is a good article. I had more than half expected that the figure of the anticipated deficit would be somewhat over \$2 billion.

Irving S. Friedman

Article sent by Hulley from March 29 NY Times
U.S. is Concerned over Payments.

D-1

Mr. Aldewereld

March 29, 1966

Irving S. Friedman

Bank Staff Studies

I would appreciate your reaction to the attached suggestion.

I am inclined to provide the report as requested.

Pereira Lira's memo March 23 - request for Bank studies - van der Tak's The Evaluation of Agricultural Projects: A Study of Some Economic and Financial Aspects.

Mr. George D. Woods

March 31, 1966

Irving S. Friedman

Outline of Talk at Harvard March 23, 1966

Attached hereto is the outline which I prepared for the talk I gave to the International Finance class at Harvard last week.

I also asked the Treasurer's Department to prepare for me the attached table which you may find of interest. A copy was sent to Geoffrey, and he has circulated it to the members of the President's Council.

Attachment

I. Introduction

- (a) IMF and IBRD born together - always regarded as complementary institutions serving interrelated but distinctly different purposes. (Quote from Page 58 of "Questions and Answers" - note prepared before Bretton Woods Conference)
- (b) IMF - primary concern with currencies - their foreign exchange value (parities) and restrictions on their use (exchange restrictions) - given financial resources to achieve objectives by buying and selling currencies -- essentially support operations in foreign exchange markets by offering Central Banks possibility of obtaining additional foreign exchange to meet demand for foreign currencies -- otherwise could experience unwanted changes in exchange rate or restrictions on demand for foreign exchange. Basic function is not to provide for permanent transfer of real resources. Development specifically excluded -- therefore, short-term and revolving fund.
- (c) IBRD - concern with reconstruction and development - lack of resources in countries concerned - emphasis on increasing output and efficiency by increasing available resources for investment through international transfer of capital. - therefore, long term.
- (d) Common Philosophies
- (1) Multilateralism: i.e. Freedom and non-discrimination in trade and foreign exchange; possibility of capital restrictions but exceptional and non-discriminatory; support for international trade organization at Bretton Woods; abortive Havana Charter.

- (2) Market mechanism for currencies and goods; belief in efficacy of competitive systems;
- (3) Avoidance of competition with private firms able to perform efficiently task of providing short-term and long-term credit;
- (4) International cooperation and collaboration - world-wide, not regional or "special groups";
- (5) Principle of non-political character - yet policy decision making and not merely advisory - major facts in history of institutions.
- (6) Concept of flexibility - built in mechanism for change via EDS and Governors; much left to policy-making mechanism; little need for amendment of Articles.

II. IMF

- (a) How IMF came to be today as is - "policeman" (1947-on) - "money doctor" (1950) - relation of use of resources to achievement of Fund purposes (1951-52 decisions) - minor uses of financial resources in immediate post-war period and Marshall Plan period - devaluations in 1949 as end of post-war period - all ~~articles~~ ^{activities} combined in Article XIV consultations (1952-on) - then in stand-by agreements in 1950's to give advance assurance of drawing - need for precision in judging performance - need for general approach on monetary policy to achieve more limited purposes stated in Articles -- ways and means of overcoming balance of payments disequilibrium - remove restrictions - obtain realistic exchange rates - Article VII vs Article XIV and division of world economy - results in combining a legal formal jurisdiction - with broad economic policy interests.
- (b) Typical cases - combining Article XIV consultation and "stand-by" agreements.

- (c) Role of international monetary system manager - 1958-59 - moves to Article VIII and establishment of formal convertibility of sterling, franc, mark, etc. - reconsideration of role of Fund and adequacy of its resources to cope with new international convertibility system in 1959/60 combined with continuing sterling problem and growing concern with U.S. balance of payments lead to Group of Ten - Borrowing Arrangement etc.

II. World Bank

- (a) Decision to concentrate on financing foreign exchange cost of projects and raising money directly in private capital markets rather than of guarantee authority - why.
- (b) Consequential developments - emphasis on project identification, evaluation - follow-up on projects - also on terms of loans (maturity, grace periods, interest rates)-and on creditworthiness - on relations with private capital markets - Bank trilogy - good projects, relatively low but reasonable rates to borrowers, good standing in private capital markets - concern with credit-worthiness leads to systematic work on debts, longer run balance of payments outlook and commodity studies.
- (c) Examples of typical operations - some exceptions to role of providing foreign exchange costs of projects.
- (d) Recent redefinition of major tasks - by adding not substituting - keep project financing - but more general concern with development problems of LDC's and provision of adequate amounts of development finance on appropriate terms - how to accelerate development process successfully? consequences - new kind of outlook and relations with members; changes in work in Bank (Exs: more emphasis on economic analysis in policy making both for general and country problems - more concern with economic factors affecting flow of development

finance - (a) European inflation, (b) U.S. balance of payments.)

(e) Financial policy and relations with members (see Table).

IV. Some Current Problems or Questions.

- (a) For IMF - evaluation of efficiency of international monetary system? - what is the proper role vis a vis developing countries? - involves judgment of what are desirable policies - rising indebtedness and balance of payments consequences - Is there need for more foreign exchange reserves or credit facilities ~~reserves~~ to do job of facilitating adoption and maintenance of desirable monetary and exchange rate policies and preservation of convertibility system? How reconcile objectives of monetary policy with those of development?
- (b) For IBRD - raising resources - how to get countries to have good development programs and related policies (performance) - how relates to IMF approach - how to ensure needed resources are available - ~~development~~ terms - how to avoid disruption of realistic development programs by unexpected external developments beyond control of LDC concerned; need for coordination of various providers of development finance - consultative groups - need for deep understanding of economies.

CE

Files

March 29, 1966

Irving S. Friedman

Economic Mission to Morocco

Comments given today to Mr. El Emery. It was agreed that the emphasis of the new mission should be in making a new judgment on economic performance and outlook. The survey mission would be fully used but its conclusions would not be used as the criteria of performance.

Countries attending UNCTAD Meeting on Supplementary Finance

Argentina
Australia
Belgium
Brazil
Cameroon
Canada
China
Congo
Czechoslovakia
Ecuador
El Salvador
Federal Republic of Germany
Finland
France
Ghana
India
Israel
Italy
Japan
Kuwait
Lebanon
Mali
Mexico
Morocco
Netherlands
Peru
Poland
Republic of Korea
Viet Nam
Romania
Spain
Sudan
Sweden
Switzerland
Trinidad and Tobago
Tunisia
Turkey
Uganda
Ukrainian SSR
USSR
UAR
UK
Tanzania
USA
Yugoslavia

March 25, 1966

Dear Walter,

It was nice to hear from you and to read your thought provoking views about the changing trends in the capital markets.

We ourselves have not had the time to do any work recently along the lines you have in mind, but this is certainly the field in which we would be interested in doing some research in the future. We are, of course, actively interested in following the current development in the leading capital markets of the world, but at present our work in this area is mainly limited to developing data on actual amounts of public offerings, etc.

I cannot think of a single book which deals with this subject comprehensively, but there have been several articles on one or the other aspect of the subject which I am sure you must have seen. Offhand, I can recall a recent paper in the IMF Staff Papers on European capital markets, as also one by Peter Kennan in the Lloyds Bank Review (early 1964), and one by James Meade Three Bank Review (1964). There are various others, and I am sure it would be possible to find references to these in the Journal of Economic Abstracts.

I am glad to hear that you are finding life in Freetown pleasant. The family is fine, but scattered! With warmest regards,

Yours sincerely,

Irving S. Friedman

Mr. G. W. Klein
P.O. Box 1128
Freetown, Sierra Leone

Mr. Andrew M. Kamarck

March 28, 1966

Irving S. Friedman

Form for Status of Economic Missions

I have no objection to the attached form but would like to see something more explicit with respect to the briefing paper. Perhaps Line 5 could read, "If briefing paper and terms of reference approved, date of approval." You might, however, wish to make these separate items.

I also find it difficult to conceive of 11 coming after 10. I would have thought that the country's policy statement would materialize when the mission returned to headquarters or at least before further policy discussions were held with the government. I would rather think that after the policy discussions with the government, there would then be a report to the Chairman of the Economic Committee as to the outcome of such discussions. Do you think such a report should be circulated to the Economic Committee? Perhaps this is not necessary as long as members of the Committee know that it is being done. I am a little bit worried about everybody doing everybody else's job but their own.

Attachment

March 28, 1966

Mr. Kamarck

800

How would you propose we handle this.

Irving S. Friedman

M.L. Ernst letter of March 21 to Woods re early draft of
Comparative World Almanac.

March 28, 1966

Mr. Hulley

1012

You might be interested in seeing this.
Please return.

Irving S. Friedman

Wishart's letter to H. Bruce Palmer enclosing
"U.S. Production Abroad and The Balance of Payments"

March 28, 1966

Mr. Owen

1009

I am not sure just what Annex I is. I would like it to be the Summary and Conclusions of Economic Report.

Irving S. Friedman

DRAFT

EC/M/66

Draft Insertions - Conclusions and Recommendations on the Economy of Cyprus

Insert A, Page 2

The Chairman felt that in any case the Economic Committee should give its judgment without qualification but make clear in the discussion that economic questions might be satisfied by non-economic considerations in this kind of situation.

Insert B, Page 4

The question of appropriate interest rate would be considered in connection with the study being made on other possible "market eligible" countries.

Insert C, Page 1

Attached hereto is a copy of the Summary and Recommendations of the Economic Report.

Original sent to Owen.

Mr. Owen

March 28, 1966

Irving S. Friedman

Attendance of Fund Representatives at Economic Committee Meetings

I find this memorandum too cumbersome and would like something more informal.

Re your query on Malagasy - why don't you ask Messrs. Kamarck or de Vries as well as Mr. El Emary or John Williams.

MAR 25 1966

Dear Gottfried,

Edna and I will be delighted to see you and your wife next weekend. Would tea at 4 pm at our house be all right with you?

For your convenience I enclose directions on how to get there.

Looking forward to seeing you both,

Yours sincerely,

Irving S. Friedman

Professor Gottfried Haberler
Graduate School of Public Administration
Harvard University
Cambridge
Massachusetts 02138

To: The Economic Committee
From: The Chairman
Subject: Outline of Economic Committee Policy Paper

From time to time I have made comments at the Economic Committee on how our economic policy papers should be prepared. I have been requested by the Secretary of the Committee and various members of the Committee to put something down in writing for the guidance of the various staff members who participate in the drafting of these papers.

I appreciate that what we are doing may be somewhat different from the Operational Memorandum 4.02 dealing with economic reports and we may wish, at some time after we have had enough experience, to consider new language for this Operational Memorandum.

The Economic Policy Memorandum should, in principle, include the following sections:

1. Introduction: This section will describe briefly the operational circumstances and the contemplated lending or technical assistance operations, if any. It may also give any brief history of Bank relations with the country which seem pertinent to the drafters for consideration of its economic outlook and policies. This might be particularly pertinent for economic policy memorandum dealing with countries with which the Bank has had some special problems.
2. The Statement of Issues: This section should make clear what matters need to be considered by the Economic Committee. It should refer to an attached Summary and Conclusions of the Economic Report and not attempt to summarize or reproduce the attachment.
3. Discussion of Policy Issues: This discussion should bring to light considerations which should affect the judgment of the Committee in reaching a decision on the various issues which are not contained in the summary and conclusions of the economic report. For example, it might be later information or confidential material not included in the report, or judgments held by staff

members based on experience, which are also not reflected in the economic report as such. It might prove convenient to prepare this section by following the outline of issues in the previous section. However, it might prove preferable in some cases to do it otherwise.

4. Recommendations and Decisions: The proposed recommendations and decisions should include such matters as creditworthiness or IDA-worthiness, market eligibility, cost sharing or local expenditure financing, the magnitude of financing deemed reasonable, etc. The recommendations and decisions should also give a judgment about the country's economic performance, including development program and related policies. Where appropriate, this section should indicate what changes in economic performance are regarded as prerequisites for lending by the World Bank Group or for recommending financial support by members of the consultative group. Presumably in such cases there would have been some discussion in the previous paragraphs indicating what further efforts were being taken to bring about the desired change in economic performance. If not, it might prove necessary to indicate in the Recommendations and Decisions what further efforts should be taken.

Mr. Geoffrey M. Wilson

March 25, 1966

Irving S. Friedman

Suggestions for Director of EDI

The following are some names of persons who might be suited to be the next Director of the EDI. As I said yesterday, I do think it would be very useful from any point of view if an outstanding person from the less developed world could have a chance to be the Director of the EDI.

- (i) Mr. Isaiac Kastenetsky from Brazil. He is Director of Research, Brazilian Institute of Economics, Getulio Vargas Foundation. Before taking up his present post in 1965, he was Head of the National Accounts Centre in the same Institute. He is now also Professor and Head of the Economics Department of the School of Social and Political Sciences in the Catholic University and a Professor of Economic Analysis in the National Council of Economics in Rio de Janeiro. In 1963-64, he was Visiting Professor at Yale University.
- (ii) Mr. J. S. Raj from India. Most recently he was the General Manager, the Nigerian Development Bank. In the past, he has been Professor of Economics, Rangoon University; was Chief of Mission, Exchange Restrictions Department, IMF; has served as the Joint Secretary, Ministry of Agriculture, India; Alternate Executive Director for India, IMF; Director, Asian Department, IMF; Deputy Manager, ICICI, India. He also served on the Indian Securities and Exchange Commission.
- (iii) Mr. Jorge Marshall from Chile. Presently he is the Director of Research in the Central Bank of Chile. Formerly he was an Alternate Executive Director in the Fund and member of staff in Exchange Restriction and Western Hemisphere Departments, IMF.
- (iv) Mr. K. N. Raj from India. Presently Professor of Economics and Director, Delhi School of Economics. Has served on various Governmental Committees, most notably the Raj Committee on Steel, of which he was the Chairman. He is one of India's most respected academic economists.

If I have other suggestions, I will pass them on to you.

March 24, 1966

Dear Walter,

It was nice to hear from you and to read your views about the changing trends in the capital markets.

We ourselves have not had the time to do any work recently along the lines you have in mind, but this is certainly the field in which we would be interested in doing some research in the future. We are, of course, actively interested in following the current development in the leading capital markets of the world, but at present our work in this area is mainly limited to developing data on actual amounts of public offerings, etc.

I cannot think of any single book which deals with this subject comprehensively, but there have been several articles on one or the other aspect of the subject which I am sure you must have seen. Offhand, I can recall a recent paper in the IMF Staff Papers on European capital markets, as also one by Peter Kennan in the Lloyds Bank Review (early 1964), and one by James Meade in the Three Bank Review (1964). There are various others, and I am sure it would be possible to find references to these in the Journal of Economic Abstracts.

Best wishes,

Yours sincerely,

Irving S. Friedman

Mr. G. W. Klein
P.O. Box 1128
Freetown, Sierra Leone

March 23, 1966

Harvard

The Role of the Fund and the Bank

I. Introduction

- (a) IMF and IBRD born together - always regarded as complementary institutions serving interrelated but distinctly different purposes. (See Page 58 of Answers)
- (b) IMF - concern with currencies - their foreign exchange value (parities) - restrictions on their use (exchange restrictions) - given resources to achieve objectives by buying and selling currencies -- essentially support operations in foreign exchange markets by offering probability of obtaining additional foreign exchange to meet demand for foreign currencies - otherwise experience unwanted change in rate or net ratios on demand.
- (c) IBRD - concern with reconstruction and development - lack of resources in countries concerned - emphasis on increasing output and efficiency by increasing available resources for investment.
- (d) Corwan Philosophies
- (1) based on principles of multilateral countries, i.e. freedom and non-discrimination in trade, investments of capital restriction priorites, tariffs.- non-discrimination, market mechanism for currencies and goods; efficacy of competitive systems; (2)
 - (2) avoidance of competition with private firms able to perform efficiently task of providing short-term and long-term credit;
 - (3) role of GATT - abortive Havana Charter in Trade;
 - (3) based on principle of international cooperation and collaboration - world-wide, not regional or "special groups";
 - (4) principle of non-political character - yet decision making - (not merely advisory);

- (5) precept of flexibility - built in mechanism for change via
EDs and Governors.

II. Comparison with IMF

- (a) How IMF came to be today as is - "policeman" (1947-on) - money doctor (1950) - use of resources (1951-52 decisions) - relate to purposes came after immediate post-war period and Marshall Plan - devaluation of 1949 as end of post-war period - all combined in consultation (1952-on) - then in stand-by agreement in 1950's to give advance assurance of drawing - need for precision in judging performance - need for "general approach" to achieve rest of stated purposes - ways and means of overcoming balance of payments disequilibrium - remove restrictions - obtain realistic exchange rates - Article VII vs Article XIV and division of world economy - combine a legal formal jurisdiction - with broad economic interests.
- (b) Typical cases - combining Article XIV consultation and "stand-by."
- (c) Role of international monetary system manager - 1958-59 - Article VIII moves - reconsideration starting in 1959/60 leading to Group of Ten - Borrowing Arrangement etc.

2. World Bank

- (a) Decision to concentrate on financing foreign exchange projects, cost of projects and raising money in private capital markets as a joint guarantee - why - consequential developments - emphasis on project identification, evaluation - follow-up - also on terms of loans (maturity, grace periods, interest rates) - and on any other condition - also on relations with private capital markets - Bank trilogy - good projects, relatively low but reasonable rates to borrowers, good standing in private capital markets,

always covered with creditworthiness - relation to extend debts and balance of payments

- (b) Recent redefinition of major tasks - by adding not substituting - keep project financing - but more general concern with development problems of LDC's - how to accelerate development process successfully? consequence - new kind of outlook, relations with members and work in Bank - (more emphasis on economic analysis in policy making both for general and country problems) - more concern with economic development affecting flow of development finance - (a) European inflation, (b) U.S. balance of payments.
- (c) Typical cases - country work; general policy - financial policy (see Table).

3. Current Economics

- (a) For IMF - formulating of international monetary system - what is proper role vis a vis developing countries - involves judgment of what are desirable policies we have to advert them - indebtedness - raising of sufficient substitute for reserves to do job of facilitating adoption and evaluation of desirable monetary and exchange rate policies.
- (b) For IBRD - raising resources - how to get countries to have good development programs and policies - how to ensure needful programs are met - (performance) - development terms - how to avoid disruption of realistic development programs by poor development performance or external development.

CN-3

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WBG ARCHIVES March 24, 1966

Personal

Dear Erwin,

I have delayed answering your letter of February 23 as I first wanted to read your paper. Incidentally I am attaching a copy of a summary prepared by one of my staff which you may find of interest and possible use.

I find the paper very thoughtful. There are a few words here and there I would change but nothing worth mentioning. It obviously contains a great deal of wisdom and philosophy which go much beyond the topic of the paper. I am not sure that I would agree with every word said about the World Bank and its relations with regional banks, but they are views which ought to be aired. My only query is whether the sections on a simplified technology and the Postscript are worth including. As for the Postscript, the paper is already quite polemical and I wonder if you want to leave this as a dominating flavor. The simplified technology enters into another field, although closely related, and might prove to be a red herring.

Part of the problem of involving governments and international institutions in stimulating what you call "grass roots movements or activities" really in the end comes down to availability of staff and division of labor. This is quite apart from whether the national or international institutions ought to be friendly and well disposed, which, as you know, I think they ought to be. However, the question arises of how much of their own efforts should be directed towards this end.

I also take the point that it is very important that these "grass roots movements" be truly indigenous and that even the appearance of outside domination or interference could be most damaging. This leads me, like yourself, to place great emphasis on the role of private institutions, both international and national. I believe that more could be done to make sure that the international institutions get the benefit of the knowledge and sensitivities which are acquired by people working in the private institutions and perhaps vice versa. Thus, though I believe that scarce human resources inevitably leads to division of labor, this is completely different from saying that the international institutions should be aloof and disconnected from the activities of what you call "private enterprise". Incidentally, I think your distinction between private enterprise and private business is very useful.

Thank you for letting me read the document. I hope these comments may be of some use.

Sincerely,

Encl.

Irving S. Friedman

Mr. Erwin Schuller
250 East 65 Street
New York, N.Y. 10021

CW-3

Mr. Bernard Bell

March 22, 1966

Irving S. Friedman

Would you mind reading this letter before it is despatched please. It was drafted by Mr. McIvor. I think it is safe but in view of the Indian discussions now taking place I would feel happier if you read it just in case. Thanks.

CN - Marc Alexandre
Eurofinance

Mr. Woods

March 23, 1966

Irving S. Friedman

Eurofinance - Mr. Marc Alexandre

I do not think there is much point in your seeing Mr. Marc Alexandre except possibly as a matter of courtesy if you happen to have a few moments free when he is here.

During his last visit not only did I speak to Mr. Alexandre (who incidentally is a very agreeable person) but also had a number of people in various departments (including Projects) give me their judgments as to the usefulness of Eurofinance research studies for us. The common view was that their work was not of much relevance to ours except in those rare cases where we make a loan to a developing country based on a purchase contract or investor's guarantee.

The main purpose of Eurofinance seems to be research on European companies so that the associated banks have some information on which they can base loans and investments.

MISC.

March 24, 1966

Dear

Thanks very much indeed for the research material.

I think this would be very interesting and if it isn't too much trouble would be pleased to receive it regularly.

Yours sincerely,

Irving S. Friedman

Mr. William Collard
Paine, Webber, Jackson and Curtis
815 Connecticut Avenue NW
Washington, D.C. 20006

MISC.

March 24, 1966

Dear Mr. Van Dine,

Thank you very much for the new edition
of your book.

I look forward to reading it with great
interest.

With kind regards,

Yours sincerely,

Irving S. Friedman

Mr. Vance Van Dine
Morgan Stanley and Co.
Two Wall Street
New York 5, N.Y.

March 23, 1966

Mr. Aldewreld

Apropos of our discussion yesterday on your speech, I believe you will find the attached table useful.

For purposes of a global figure, I think it is safe to say the totals given herein represent about three-fourths of the total debts or services.

Enc. Table from Rao's memo of Mar. 22 External Debt.

Outline

1. Comparison with IMF

- (a) How IMF came to be today as is - "policeman" (1947-on) - money doctor (1950) - use of resources (1951-52 decisions) - relate to purposes - all combined in consultation (1952-on) - then in stand-by agreement in 1950's - need for precision in judging performance - need for "general approach" - ways and means of overcoming balance of payments disequilibrium - remove restrictions - obtain realistic exchange rates - Article VIII vs Article XIV and division of world economy - combine a legal formal jurisdiction - with broad economic interests.
- (b) Typical cases - combining Article XIV consultation and "stand-by"
- (c) Role of international monetary system manager - 1958-59. Article VIII moves - reconsideration starting in 1959/60 leading to Group of Ten - Borrowing Arrangement etc.

2. World Bank (as it was)

- (a) Combines purpose to further developments by facilitating investment for productive purposes - through mechanism encouraging flow of private capital - major tasks - how to serve purpose (what investments to finance) - how to raise funds (guarantor - direct lender) - decision to concentrate on financing projects and raising money in private capital markets.
- (b) Consequential developments - emphasis on project identification, ~~evaluation~~ - follow-up - also on terms of loans (maturity, grace periods, interest rates) - and on any other condition - also on relations with private capital markets - Bank trilogy - good projects, relatively low but reasonable interest rates to borrowers, good standing in private capital markets.

3. World Bank as is

- (a) Redefinition of major tasks - by adding not substituting - keep project financing - but more general concern with development problems of LDC's - how to accelerate development process successfully?
- (b) Consequence - new kind of outlook, relations with members and work in Bank - (more emphasis on economic analysis in policy making both for general and country problems) - more concern with economic development effecting flow of development finance - (a) European inflation, (b) U.S. balance of payments.

Examples:

Economic Committee

\$3 to 4 billion figures - (DAC - AR - Wood's article - etc.)

Supplementary Financial Study

Annual Report

India Mission

ECM -

Mr. Aldewereld

March 22, 1966

Irving S. Friedman

Planning of Economic Missions

I think you will find Mr. Owen's memorandum of interest. Perhaps when Burke returns the three of us could chat about this and related problems.

cc: Mr. Knapp



Record Removal Notice

File Title Irving S. Friedman - Chronological File - 1966 Correspondence - Volume 1		Barcode No. 1598697		
Document Date 3/22/1966	Document Type Letter			
Correspondents / Participants To: Governor M. Samil From: Irving S. Friedman				
Subject / Title Professor Smithies				
Exception(s) Personal Information				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
		<table border="1"><tr><td>Withdrawn by Bertha F. Wilson</td><td>Date August 16, 2023</td></tr></table>	Withdrawn by Bertha F. Wilson	Date August 16, 2023
Withdrawn by Bertha F. Wilson	Date August 16, 2023			

ECM-1

Mr. Owen

March 22, 1966

Irving S. Friedman

Are we informing the Fund of meetings of the Economic
Committee dealing with particular countries?

3/22 - To Karach PL +
Jalan for comment
(no extra copies made - docs
came to about 100 pages)

March 22, 1966

Dear Javier,

Thank you for your letter of March 16
which I received today.

You may be sure that I will read both
papers carefully and will be writing to you
further.

Sincerely,

Irving S. Friedman

Mr. Javier Marquez
Director
CEMLA
Durango Num. 54
Mexico 7, D.F.

March 22, 1966

Mr. Luis Machado

1000

Dear Luis,

As you can see, this is till a draft internal confidential paper, but I thought you would like to see it. Of course, I would be happy to have any comments that you may have on it.

Irving S. Friedman

March 22, 1966

Mr. Halley

1012

Please find out and come in and chat with me about this 9% Capital. Under what circumstances is it not convertible into currency?

Irving S. Friedman

Attached: IBRD Availability of 9% Capital as of Dec. 31, 1965.
SecM66-40 of 2.10.66

Mr. Andrew M. Kamarck

March 22, 1966

Irving S. Friedman

Estimation of External Capital Requirements

I have just read Mr. Levy's memorandum of March 15 to Mr. Owen. I must record that I take strong exception to this memorandum. I think we should be very careful not to encourage the idea that anybody can send memoranda to the Secretary of the Economics Committee directly. I believe that such memoranda should come from the responsible Departments, and I would like to know whether the people supervising the work agree with the comments made. I need not tell you what damage could have been done by Mr. Levy's memorandum had it been given even wider circulation than it has.

cc: Mr. de Vries

Mr. Paulo H. Pereira Lira

March 22, 1966

Irving S. Friedman

Report of the Expert Committee on Expansion of Trade among Developing Countries and on Regional Development.

I read your report with interest and think it would be of interest to the Executive Directors.

Would you discuss with Morton Mendels the desirability and feasibility of converting this into a memorandum for the Executive Directors. If ~~no~~, have it done.

March 22, 1966

Dear Fred,

I thought you might be interested in seeing the attached note prepared by one of my staff on your letter to Harold Linder. Nespoulous-Neuville has been working very closely with me on suppliers' credits and related problems, and we have talked together a great deal about these matters.

I haven't yet sorted out my own thoughts on this to the point where I feel I can commit them to paper. They are at the stage where an exchange of views with others would be most helpful to me. I do hope that I will have an opportunity for such talks with you.

Sincerely yours,

Irving S. Friedman

Enclosure

Mr. Alfred H. Von Klemperer
Vice President
Morgan Guaranty Trust Company
23 Wall Street
New York, N. Y. 10015

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: March 18, 1966

FROM: A. Nespoulous-Neuville *ANN*SUBJECT: Letter from Mr. Von Klemperer to Eximbank

The five criteria proposed by Mr. Von Klemperer for choosing between Eximbank project loans and commercial bank loans with Eximbank guarantee are analyzed and commented upon below.

A. Analysis of the criteria and of their justification

a) Criterion 3 (cost and length of credit required) seems to be the essential one. It contains three ideas:

i) Private banks would not extend loans "largely in excess of, say, seven years". This seems to indicate that seven years is in practice the upper limit for commercial bank loans. We are well aware that the safe ratio of loans to deposits decreases sharply as loan terms increase over four years, the practical limit being effectively around six or seven years in most countries.

ii) "Maturities of commercial bank credits should be related to the expected 'pay-out' of equipment". This corresponds to the traditional distinction between "commercial" paper, related to a definite operation, and "financial" paper which is not associated with an identifiable activity.

However, Mr. Von Klemperer suggests that exceptions be made to meet competition when terms longer than the useful life of the equipment are granted by other industrialized countries.

iii) Loans with subsidized rates can be granted only by Eximbank.

b) The fact that Eximbank may supply free of charge costly feasibility, engineering and economic studies for large projects, whereas commercial banks would have a problem in re-couping initial expenses of this nature, explains criterion 5 about the amount of preparatory work required. It may also be a factor in criteria 1, 2 and 4. Commercial banks are to renounce lending when the equipment is of a type which needs such a study (criterion 4 on type of transaction involved); and when such a study is indispensable to pass a judgment on the future financial situation of the borrower (criteria 1 and 2, related respectively to the type of the borrower and to the size of borrowing in relation to borrower's financial capacity).

As concerns criteria 1 and 2, the fact that Eximbank's guarantee to commercial banks does not cover the commercial risk during the first 18 months of the credit, may also play a role in the cautiousness of commercial banks.

B. Comments

The present note will be limited to a few essential comments:

- i) If commercial banks cannot, in practice, lend over seven years, they do not lose much in renouncing the financing of the "Infrastructure type of projects" or of "entire new plants of considerable cost", which are nearly always sold on longer term credit.
- ii) The picture would change if there were means of lengthening private credits from six to eight years to around 15 years, such as the one we intend to propose in our scheme.
- iii) The fact that Eximbank supplies free feasibility studies for large projects does not seem to be a sound justification for eliminating commercial bank financing for these projects. Free studies could perhaps be provided by independent companies, and paid for by AID technical assistance funds, without influencing the choice of the financing institution.
- iv) Similarly, rates of interest of private loans might be subsidized, as they are in various other countries in a number of ways, such as preferential rates of rediscount by Central banks. In the UK the Governmental Export Credit Insurance Company gives to commercial banks for large projects 100 percent guarantees, allowing them to extend loans up to 15 years after delivery at an interest rate of only 5-1/2 percent. The main activity of the Japanese Eximbank is lending directly to exporters at low rates.
- v) On the whole, it seems that the criteria proposed by Mr. Von Klemperer are suitable to the limited objective of reserving to commercial banks, with an Eximbank guarantee, loans under 7 years, to LDC's, for "shelf items", when they are granted at market interest rates, and when their terms of maturity do not exceed the life of the equipment. Achieving the objective would represent an appreciable gain for commercial banks, since a number of loans currently extended by Eximbank are of this type.

According to Mr. Von Klemperer's letter this seems to have been the main objective of commercial banks in the past. There is no point in asking for more unless commercial banks obtain the possibility of offering the buyer some of the advantages of public aid (such as free studies or subsidized interest rates), which would put them on the same footing as Eximbank or unless they receive a better insurance coverage for commercial risks, as their foreign competitors do.

cc: Mr. Hulley
Mr. Kalmanoff

DECLASSIFIED

AUG 16 2023

WBG ARCHIVES

March 22, 1966

Confidential

Dear Mr. Tainsh:

Thank you for your letter of March 11. I am sorry that we have not yet been able to have your article "Second Thoughts on Aid" published. We have tried some journals and are still trying. I hope we shall find the right place for it before long.

I was interested in the reply you received from Professor Lindblom. There certainly seems to be a need both for preventing waste and for increasing production in that vast country.

Some of our staff who deal with India have had discussions with Indian authorities on the possibilities of improving food storage and, although we have no specific proposals from the Government at present, it is quite likely that we may be requested to do something to help in this field. Whether the Government would request us to finance the plastic bags, airtight containers and other equipment which you mention remains to be seen, but it is possible, and the Bank would be ready to consider how best to help. So far as financing for local manufacture is concerned, it should not be too difficult for a sound industry to attract finance, possibly from the Industrial Credit and Investment Corporation of India or some similar institution, and possibly with help from the Bank affiliate, the International Finance Corporation.

The Food and Agriculture Organization is interested in this question of storage and waste prevention, and we have very close contacts with that organization nowadays in the joint program we undertake with them for preparing projects that the World Bank Group can finance. I understand also that the Swedish Government has been helping India and will shortly be producing a report on food storage in India. We will be interested in studying that report if it is made available to us, and we have already expressed our interest to the Swedish International Development Authority.

I mentioned in an earlier letter that we had just made an International Development Association credit for foodgrain storage in East Pakistan, and I have pleasure in enclosing a copy of each of the three agreements that we have entered into in connection with that credit; The Administration Agreement between the Government of Pakistan and Government of Sweden and International Development Association, the Development Credit Agreement between the Government of Pakistan and

International Development Association, and the Project Agreement between the Province of East Pakistan and International Development Association. I think you will find of particular interest the Schedule of the Administration Agreement which describes the project itself.

Please give my best regards to Ivar and his wife. I hope he is enjoying his visit to South Sweden.

Yours sincerely,

Irving S. Friedman

Enclosures

Mr. A. Ramsay Tainsh
Ostermalmsgatan 61
Stockholm 6, Sweden

BIS Annual
mtg
(Am - 3)

MAR 21 1966

Dear Mr. Holtrop,

Thank you for your kind invitation to attend the Annual General Meeting of the Bank for International Settlements.

I do hope that I will be able to attend but cannot say at this time whether it will be feasible. In any case Mr. Friedman or Mr. Wilson will be attending. We will let you know definitely as soon as possible.

Yours sincerely,

George D. Woods

Mr. M.W. Holtrop
President
Bank for International Settlements
Basle
Switzerland

ISFriedman/dm
3/18/66

Mr. Woods

March 18, 1966

Irving S. Friedman

BIS Annual Meeting

I do not see any special reason why you should attend the Bank for International Settlements Annual Meeting. However, there may be developments with respect to replenishment of IDA or raising funds for IBRD which might make it desirable for you to attend this BIS meeting.

As for myself, I had planned to go if Geoffrey Wilson did not plan to go, since I think that two people from the President's Council are unnecessary.

I am attaching a possible reply for your consideration.

Attachment

~~9~~
(UNCTAD) (Apr. 13-20
mtg.)

March 17, 1966

Dear Arthur,

This is just to say thanks for your letter and enclosures of March 11, which arrived before our March 15 meeting with Willard Thorp.

I expect to be attending the April meeting in Geneva. Jalan and perhaps someone else might accompany me as well as my wife.

Our luncheon with Willard shed no additional light on the subject. We did promise during the course of the luncheon that we would be sending to him fairly soon our study on the methodology of estimating external financial requirements.

With warm regards,

Sincerely,

Irving S. Friedman

Mr. Arthur Karasz
Assistant Director
European Office
International Bank for Reconstruction
and Development
4, Avenue d'Iena
Paris 16^e, France

4-1
(Pending)

March 17, 1966

Dear Harry,

I am looking forward to the Conference, and I am sure that it will be fun to comment on papers prepared by Kafka and Soligo.

I don't know the agenda of the entire Conference, but, as you know, I am very much interested in the problems of the international monetary system. I would be glad to comment on the international monetary system, if it were appropriate, either in general, or on some particular aspect such as the relationship between the international monetary system and development finance.

Yours sincerely,

Irving S. Friedman

Mr. Harry G. Johnson
The University of Chicago
Department of Economics
Chicago, Illinois 60637

March 17, 1966

My dear Takeshi,

I gather that in my absence a message was relayed to my office from Gordon Street that you would be in Washington on April 15 to 19 but that I was going to be in Geneva. Unfortunately this is still correct.

I would like very much to see you. My present plans are to be in Europe from approximately April 9 to 20th or perhaps a few days more. Are you by any chance going to be in Europe at that time? Is there any chance that you will be staying in Washington or elsewhere in the States for some time beyond the 19th?

Hoping that it will be possible for us to see each other,

Yours sincerely,

Irving S. Friedman

Mr. Takeshi Watanabe
International Financial Consultant
Suite 729, Tokyo Bldg. 2
3-Chome
Marunouchi, Tokyo

MW 1

Mr. Kamarck

March 18, 1966

Irving S. Friedman

Meetings with Professor Kervyn - Monday March 21

Would you arrange for Professor Kervyn to see as many of the following as feasible during Monday morning:

Messrs. de Vries, King, Kochav, Pereira Lira, Kalmanoff
and Alter.

March 17, 1966

Mr. Kamarok	800
Mr. King	802
Mr. Maiss	876

xx

I would appreciate having your reactions to Mr. Sundrum's attached paper on Performance. My thoughts on the next step - discussion by the Economic Committee or a special seminar - would also be appreciated.

UNCTAD mtg -
(yellow folder)

RABRIEL FERRAS
INTERBANK
BASLE

March 18, 1966

LT

SWITZERLAND

AM PLANNING TO ATTEND BIS APRIL MEETING AND HOPE EDNA WILL
ACCOMPANY ME STOP COULD YOUR OFFICE BOOK SCHWEITZERHOFF HOTEL
SUITE APRIL 16 AND 17 STOP THANKS AND WARM REGARDS

FRIEDMAN
INTBAFRAD

Irving S. Friedman
Office of the President

*UNCTAD mtg.
yellow folder*

WILFRED GUTH
KREDITANSALT FUR WIEDERAUFBAU
FRANKFURT-MAIN
LINDENSTRASSE 27

March 18, 1966

LT

GERMANY

AM PLANNING TO BE IN GENEVA FOR UNCTAD APRIL 13-20 MEETING
EDNA IS ACCOMPANYING ME STOP COULD VISIT FRANKFURT EASTER WEEKEND
IF YOU WERE HOME AND FREE STOP PLEASE DO NOT CONSIDER UPSETTING
ANY FAMILY PLANS STOP REGARDS

FRIEDMAN
INTBAFRAD

Irving S. Friedman
Office of the President

March 17, 1966

My dear Takeshi,

I gather that in my absence a message was relayed to my office from Gordon Street that you would be in Washington on April 15 to 19 but that I was going to be in Geneva. Unfortunately this is still correct. I would like very much to see you. My present plans are to be in Europe from approximately April 9 to 20th. Are you by any chance going to be in Europe at that time? Is there any chance that you will be staying in Washington or the States for some time beyond the 19th?

Hoping that it will be possible for us to see each other,

Yours sincerely,

Irving S. Fiedman

Mr. Takeshi Watanabe
International Financial Consultant
Suite 729, Tokyo Bldg. 2
3-Chome
Marunouchi, Tokyo

A-2

March 17, 1966

Dear Mr. Chandavarkar,

I was glad to receive your letter of March 8 and was about to reply to you. However, this morning I was informed by the Fund that they are making an offer to you. I presume that it will be a satisfactory offer. As a former Fund man, I am always glad when the Fund is able to add a good man to its staff.

With good luck,

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. A. G. Chandavarkar
Office of the Governor
Bank of Libya
Tripoli, Libya

CE

Mr. John H. Williams

March 17, 1966

Irving S. Friedman

Algeria - Advisory Mission

May I refer to your memorandum of March 14 to the Files on Algeria.

I would like to take this occasion to request separate copies of any memoranda sent to me. I am sure Mr. Kamarck will understand when I ask that I am not placed in a hyphenated relationship with him.

March 17, 1966

Dear Harry,

- I am looking forward to the Conference, and I am sure that it will be fun to comment on papers prepared by Kafka and Soligo. I don't know the agenda of the entire Conference, but, as you know, I am very much interested in the problem of international monetary system, and if there was some chance in the Conference to make some comments, I would be glad to comment on the international monetary system, if it is appropriate, either in general or on some particular aspect such as the relationship between the international monetary system and development finance.

Yours sincerely,

Irving S. Friedman

Mr. Harry G. Johnson
The University of Chicago
Department of Economics
Chicago, Illinois 60637

Udc - 1

Mr. Andre Nespoulous-Neuville

March 17, 1966

Irving S. Friedman

Spanish Resolution at UNCTAD

I have been receiving queries as to what we are doing on export credits from the developing countries. I am replying that we are studying the problem of suppliers' credits but intend to follow this up with a study of the problems of the developing countries after we have finished the suppliers' credits study. In the meantime, I would appreciate if you would try to follow what is happening in the regional discussions since it is likely that I will be asking you to do this study on the export credit needs of the developing countries after you have finished the present one.

cc: Mr. Jalan

*Sundrum paper - in
special folder on IFF dist
Eco Ctr - marked "Performance"*

Mr. Sundrum

March 15, 1966

Irving S. Friedman

Thank you for your paper on Performance. Could you let me have some more copies since I would like to send them to Messrs. Kamarck, King and Maiss in order to have their reactions, including what we do next with the paper. My own thoughts are that it might be discussed by the Economic Committee or by a special seminar.

UNC-1
(Document on and
shelving)

March 15, 1966

Mr. Woods

1220

I believe that you might find of interest the attached summary of a recently published UNCTAD study on Regional Development Financing.

CH-3

Mr. McIvor

March 15, 1966

Irving S. Friedman

Letter from A.R. Tainsh

You will find the attached letter of interest. If you have any suggestions for reply I would appreciate having them.

Mr. Grenfell

March 15, 1966

Irving S. Friedman

Article by Mr. Tainsh

I have had a letter from Mr. Tainsh inquiring, among other things, if we had any difficulty in placing his "Second Thoughts on Aid". Have you had any news of a placement for it?

A-2

Mr. Van Wagenen

March 15, 1966

Irving S. Friedman

Junior Professionals

I would think that Mr. Johnson or Mr. Vacchelli would be quite suitable.

VNC-7

March 14, 1966

Dear David,

I am enclosing a copy of the Study on Supplementary Financial Measures. I had a lot of fun doing the Study with the help of some of the people on the Bank staff.

By and large I am enjoying my new position in the World Bank. Most of it is concerned, as in the Fund, with problems of individual countries and general policy questions. I guess that if the Study had not been requested by the UNCTAD and accepted by the Bank as a formal commitment, I would never have found the time to do it.

I do hope we will be seeing each other in New York or here. Do you come to Washington often? If you do please save some time for lunch or at least a chat.

With best regards,

Sincerely,

Irving S. Friedman

Mr. David L. Grove
Vice President
Blyth and Co. Inc.
11 Wall Street
New York City

cc

Mr. J.H. Williams

March 14, 1966

Irving S. Friedman

Algeria

With respect to the latest cable (No. 24) from Mr. Avramovic I believe our answer should be that pending further information from him we now consider the incident closed and the mission continues its normal work.

If you think it necessary we might add that we do not want any more details or explanations or implications.

cc: Messrs. Knapp
Wichart
Alderserold
Kamarck
El Emery
Benjenk

MW1

March 14, 1966

Mr. Woods

1220

I think you will be interested in reading the attached letter from Karasz, particularly in light of the lunch with Willard Thorp tomorrow.

Blue copy MWI

Mr. Friedman

March 14, 1966

~~Irving S. Friedman~~ *Bimal Jalan*

Professor Bloch's report on Regional Development Financing (TD/B/AC.4/R.3)

1. The UNCTAD in 1964 adopted two resolutions on regional development -- one on the "feasibility of establishing a development fund, where appropriate, for aid to developing countries for the purpose of financing long-term capital projects without prejudice to bilateral arrangements." (A.IV.9), and the other urging that "a proportion of assistance be provided to developing countries, where possible and appropriate, through, or in association with, regional bodies such as the InterAmerican Development Bank and the African Development Bank (A.IV.10). Mr. Bloch in his report for the Trade and Development Board deals only with the development finance aspects of these recommendations, the trade aspects having been covered in a separate report submitted by the Secretary-General of the UNCTAD.

2. The report centers on the study of financing long-term capital projects for regional development, but does not arrive at a policy conclusion regarding the creation of a new regional development fund since "it is not clear at this point how the regional development pattern will emerge after creation of new financial institutions in Africa and Asia while certain regional solutions -- even beyond the financial sphere -- are still in a state of gestation." The main body of the report describes in detail the selected features of the regional development finance process as it operates under existing conditions, and against this background examines the meaning and uses of regional approach. In the course of this enquiry certain suggestions are made for improvement and innovations for the financing of regional projects and institutions.

3. The greatest advantage of funnelling development finance through regional development banks lies in the fact that it provides greater bargaining power for the developing countries at the same time that it makes it possible to plan and use the inflow of assistance in a more effective manner. This is especially so when multinational projects are concerned. Mr. Bloch supports regional development financing machinery where these projects are concerned, and in cases where large scale plants are required for production and an expansion of markets beyond narrow limits becomes a necessity for a widening number of industrial activities. Similarly, in quite a few cases simultaneous establishment of complementary industries in a group of countries makes it possible to exploit the economies of scale and thus result in a more economic production on a regional scale. It is much easier for a regional development financing machinery to promote this regional cooperation in project planning than for a global financing agency. Mr. Bloch emphasizes, however, that though regional agencies may be region oriented and region based, they should nevertheless provide for extra regional participation especially in the provision of finance and membership in administration. Regionalism is not a substitute for global thinking, but only a more effective way of dealing with a specific regional problem through a global effort. He thus commends the Asian Development Bank for opening its membership to developed countries, unlike the African Development Bank which is purely African in approach as well as in participation.

4. Mr. Bloch then considers the present and potential sources of funds for regional development banks. As the capital market is presently organized, he does not see too much scope for these regional banks to raise finance in private capital markets. The underwriters' arrangements in most markets are quite restricted and only very limited funds are being tapped even by such established borrowers as the World Bank, European Investment Bank and IDB. There is, however, the possibility that the regional banks may be able to negotiate some direct placement with multinational or national public, semi-public or publicly controlled financial institutions, and also perhaps directly with the Central Banks. In cases where the governments agree to take these bonds, Mr. Bloch suggests that they might be a special, non-marketable but transferable issue. Then, as conditions permit, agencies of one country might purchase the bonds directly from agencies of another country. But for the past, Mr. Bloch feels that the regional banks would have to rely on government subscriptions or in some cases direct long-term government lending.

5. The rest of Mr. Bloch's paper describes the multinational projects now under way, such as the Mekong Project and the operations of the existing extra-regional and regional agencies such as, the World Bank, U.N. Special Fund, European Investment Bank, IDB, CIAP, the African Development Bank, etc. There is also an annex on National Government Budgeting and Regional Development. It is suggested that participating countries might find it feasible to establish at the national level and within their respective budgetary framework a Regional Development Fund. Such a fund would incorporate all the transactions pertaining to regional projects, and thus might provide a better perspective for national participation in regional development.

March 14, 1966

Dear Howard,

Thanks so very much for the stamps. The Russian set is extremely interesting and of course adds to my collection considerably. Needless to say the Afghan ones are also of great interest.

I haven't spoken to Albert Waterston as yet but can imagine some of the adventures that one might come across in a primitive Afghan village.

Everything goes along well here - busy as usual of course. Hope all is fine with you. Please call on me if I can be of help to you and the family.

Best regards,

Yours sincerely,

Irving S. Friedman

Mr. Howard K. Carlson
IMF Representative
United Nations
Box 5
Kabul, Afghanistan

MISC

March 11, 1966

Dear Miro,

Thank you for your letter of February 2, 1966. I am sorry for not writing to you earlier in response to your request. I was having our primary commodity index updated and what with one thing and another it took much longer than expected. I enclose the memorandum, addressed to me by a member of our staff, which contains the information that you requested. I hope it is of some use.

It has indeed been a long time, and I do look forward to seeing you soon.

Yours sincerely,

Irving S. Friedman

Mr. Miroslav A. Kriz
Vice President
First National City Bank
399 Park Avenue
New York, N.Y.

Enclosure

*Posner
(mwl)*

Messrs. Kamarck, de Vries, B. King, and Goor

March 11, 1966

Irving S. Friedman

Lunch with Mr. Morris L. Ernst

It would be appreciated if you could join me for lunch on Friday March 18 to meet Mr. Morris L. Ernst and Mrs. Posner. Thank you.

MW1

Mr. Wishart

March 11, 1966

Irving S. Friedman

Paper Presented by Hollis B. Chenery

Attached hereto is a copy of the Chenery speech. Perhaps you have already obtained it from other sources. As you know we have been participating in these OECD discussions.

I have a fairly high regard for Hollis Chenery but I am afraid that he has been one of the people who has pushed hardest the theoretical approach to the requirements of the developing countries based upon arbitrary assumptions of all kinds. We do not follow this technique in the World Bank although some of our staff have an inclination in this direction. However, I do think that Chenery is one of the better people employing this technique.

Attachment

(Pending)
MVI

Mr. Woods

March 11, 1966

Irving S. Friedman

Mr. Morris L. Ernst

You will be interested to know that I telephoned Mr. Ernst as you requested. He and the editor of the Almanac, Mrs. Posner, are coming to have lunch at the Bank with a few of us on Friday, March 18.

UNC-1

Mr. Jalan

March 10, 1966

Irving S. Friedman

UNCTAD Resolution

I received a phone call from Mr. Gutierrez Cano, Executive Director for Spain, and he is wondering about what we have done with respect to the Spanish sponsored resolution at UNCTAD dealing with discount of commercial paper for export credit purposes. Could you please find out where we are on this?

cc: Mr. Kalmanoff

URGENT

BOP-1

Mr. Kochav

March 10, 1966

Irving S. Friedman

U.S. Balance of Payments with LDCs

I need to have the attached memorandum brought quickly up to date although not, of course, at the expense of accuracy. I would also like a new memorandum from myself to Mr. Woods and in it I think we ought to make clearer that the aid recipient countries have not been exploiting their aid to increase reserves.

If this is done well I can make more use of the memo than if it leaves the contrary impression.

Attachment

Mr. Kamarek

March 10, 1966

Irving S. Friedman

Supplementary Finance

To avoid misunderstanding I would like to state that the "Supplementary Finance group" should consist of:

1. Mr. Kamarek - or a substitute
2. Mr. Macone
3. Mr. Jalan
4. ISF

I should expect that Mr. Sarma might do representation work for us and that we should continue to get advice on these matters from time to time from Isaiah Frank.

If you cannot see yourself as available for this I would appreciate your appointing another senior person. It is clear that there will be repeated demands on the time of these people both in Washington and abroad during the next year or two in connection with the Bank proposal.

cc: Mr. Macone
 Mr. Jalan
 Mr. Isaiah Frank
 Mr. Sarma

March 10, 1966

Mr. Walter Hill
International Chamber of Commerce
Office of the Secretary General
38, Cours Albert 1^{er}
Paris, France

Dear Walter:

This is in reply to your letter of March 3, 1966, concerning the particular aspects of the subject of suppliers' credits and credit insurance which the World Bank is intending to take up in the study it agreed to undertake for UNCTAD.

As you have seen from the text of the resolution on the subject^{1/}, mention is made of the entire field of suppliers' credits and credit insurance, covering such credits and insurance to developing countries as well as the use of credits by developing countries to promote their own exports. We contemplate that our initial response to UNCTAD will concentrate on the first of these two aspects. In making that response, we are paying particular attention to policy proposals designed to minimize the difficulties we identify.

I hope that this interim indication is helpful; I will be sending you our study as soon as available. I'm aiming for issuance this summer.

Yours sincerely,

Irving S. Friedman

^{1/} P.S. I am enclosing a copy of it for your convenience. I find it more handy to use this way than in the Final Act of UNCTAD volume.

SSM

Mr. Davies

March 10, 1966

Irving S. Friedman

Senior Staff Meeting Minutes

Thanks for your help.

I would like to have the Minutes carry the entire statement as read, with the suggested introductory material as follows. I would be happy to be guided by you whether the material in brackets should be used to explain the reproduction of the entire text. If the procedure seems too extraordinary to you, the possibility might be to append the text to the Minutes and thus make it part of the Minutes.

"Mr. Friedman read the following statement. He knew that it was unusual to read as statement but since so many comments had been made on important aspects of the economic work he thought it best to prepare a statement in advance. (Mr. Friedman and other members of the Senior Staff requested that the statement be reproduced in full.)"

March 9, 1966

Outline

1. Comparison with IMF

- (a) How IMF came to be today as is - combined policeman (1947-on) - money doctor (1950) - use of resources - all combined in consultation (1952-on) - then in stand-by agreement in 1950's - need for precision in judging performance - need for "general approach" - ways and means of overcoming balance of payments disequilibrium - remove restrictions - obtain realistic exchange rates - Art. VIII vs. Art. XIV and division of world economy.
- (b) (Combine a legal formal jurisdiction - with broad economic interest).

2. World Bank (as it was)

- (a) Combines purpose to further develop with technique by facilitating investment for productive purposes - through mechanism encouraging flow of private capital - major tasks - how to serve purpose (what investments to finance) - how to raise funds (guarantor - direct lender) - decision to concentrate or lend on financing project and raise money in private capital markets.
- (b) Consequential developments - emphasis on project identification, evaluation - follow-up - also on terms of loans (maturity, grace periods, interest rates) - and on any other condition - also on relations with private capital markets - Bank trilogy - good projects, relatively low but reasonable interest rates to borrowers, good standing in private capital markets.

3. World Bank as is:

- (a) Redefinition of major tasks - by adding not substituting - keep project financing - but more general concern with development problems of LDC's - how to accelerate development process successfully?

(b) Consequence - new kind of outlook, relations with members and work in Bank - (more emphasis on economic analysis in policy making both for general and country problems) - more concern with economic development effecting flow of development finance - (a) European inflation, (b) U.S. balance of payments.

Examples:

Economic Committee

3 to 4 billion figures (DAC - AR - Woods Article - etc.)

SFS (Supplementary Financial Study)

Annual Report

India Mission

CT

Mr. Kamarck

March 8, 1966

Irving S. Friedman

Economic Report - Argentina

I presume that this is not the procedure agreed on how to handle economic reports. I also presume that this memorandum is not addressed properly.

Do you want to talk to Mr. Alter about it or shall I?

Attachment

mwl

March 8, 1966

Mr. Merlyn Trued:

Appropos our last luncheon conversation I thought you might be interested in reading the attached. It has not been circulated within the Bank to anyone except Mr. Woods.

Irving S. Friedman

(Post War Planning)

L-1

March 7, 1966

Prof. Gottfried Haberler
Harvard University
Graduate School of Public Administration
326 Littauer Center
Cambridge, Massachusetts

Dear Gottfried,

Thanks for your letter of March 2, and your kind remarks on my talk. I found it quite a stimulating experience also.

On behalf of my wife and myself we would like to thank you for the hospitable welcome accorded us both at the Dana-Palmer House.

We would be delighted to see you and your wife during the first weekend in April. Edna and I were wondering whether you would like to come out and have dinner with us or perhaps tea on Saturday or Sunday afternoon. Please let us know if you are free so that we can arrange something.

Sincerely,

Irving S. Friedman

DAC-09

Mr. Kamarck

March 8, 1966

Irving S. Friedman

Meeting with Mr. Saxe

Do you recollect enough of our meeting with Jo Saxe to make a note of it? It would be useful if you did.

NOT SENT

Mr. Michael L. Lejeune

March 8, 1966

Irving S. Friedman

Algerian Mission

Thank you for your note of March 4 on the Algerian Mission. I am sure that you join me in the hope that you will prove to be wrong.

However, as I understand it, this mission grew after repeated visits by Mr. Avramovic to Algeria and in close consultation with others. Mr. Avramovic, as you know, is most eager to do a thorough and comprehensive job and is convinced that the Algerian authorities are in a cooperative mood to have this job done. It therefore may well be that the size of the mission will impress the Algerians favorably as a token of the Bank's eagerness to be of help. Moreover, with respect to the "unmanageable" size, Mr. Avramovic plans to break the mission down into relatively small groups each operating under a responsible person with relatively little need for guidance from him. This mission, as you know, is performing a number of different functions. However, I take the point about whether this may not represent too much manpower in terms of other needs.

I would like to assure you that the size of this mission has no implications whatever for economic missions in general. Algeria is not a consultative group but it is by no means an ordinary economic mission enjoying no special priority. Indeed we only assigned Mr. Avramovic to the mission on being told that it was a mission of the highest priority.

Since this mission is not regarded as a prototype please be assured that there is no reason to fear that we are headed for an unwieldy and extravagant way of conducting our business. I am sure that when the procedures on which we have agreed begin to function officially -- which they will with increasing experience -- this sort of concern will become a matter of the past.

I feel and hope that you agree that the size of a mission as well as the time spent in a country should be a function of its terms of reference, including its purpose, scope and depth. When these considerations are the result of the careful deliberations and careful agreement of the senior economic officials of the Bank we will then have the basis of choosing the head of the mission and determining how big it ought to be.

I think it only fair to Mr. Avramovic to report the fact that others have been more reluctant than he to consult with colleagues on the scope and size of missions. Indeed, others too have made what I regard as the mistake of by-passing the regular channels in the Bank of contacting outsiders. I am really having much more difficulties with those who are reluctant to accept responsibilities and believe that the Bank should continue to function only along traditional lines and with its traditional problems. Mr. Avramovic is well known for his enthusiasm but it is an enthusiasm which aims to do a good job.

cc: Messrs. Knapp, Broches and El Emery

KARASZ
INTBAFRAD
PARIS

MARCH 7, 1966

LT

FRANCE

150 REOURCON TODAY SENDING MACONE ACTING CHIEF TRADE ANALYSIS ECONOMICS
DEPARTMENT TO ATTEND DAC MEETING WITH YOU STOP MACONE WORKED CLOSELY
WITH ME ON STUDY STOP PLEASE ADVISE EARLIEST POSSIBLE IF ATTENDANCE
BY KAMARCK OR MYSELF AT FUTURE MEETINGS DEEMED DESIRABLE STOP MACONE
WILL CABLE ETA AND HOTEL WHEN ARRANGED

FRIEDMAN
INTBAFRAD

Irving S. Friedman
Office of the President

cc: Mr. Macone

Pending

March 8, 1966

Mr. Eli Shapiro
Professor of Finance
Harvard University
Graduate School of Business
Administration
Boston, Mass.

Dear Eli,

Thank you for your letter of March 1, and
sorry we missed each other last week.

At this moment March 23 seems possible.
However, there are all sorts of clouds on the horizon.
If it is all right with you I'll plan to come up and
then if it seems impractical I will let you know as
soon as I know and will provide you with an adequate
substitute.

Looking forward to seeing you soon,

Yours,

Irving S. Friedman

A-2

March 8, 1966

Mr. Addison W. Parris
Small Business Administration
811 Vermont Avenue, N.W.
Washington, D.C.

Dear Mr. Parris,

Thank you very much for your letter of
March 4 and your c.v. I am bringing it to the
attention of others in the Bank who are interested.

I will be in touch with you in the near
future. Perhaps we could have a chat after I have
had a chance to canvass my colleagues.

Yours sincerely,

Irving S. Friedman

L-1

March 7, 1966

Mr. Gottfried Haberler
Harvard University
Graduate School of Public Administration
326 Littauer Center
Cambridge, Massachusetts

Dear Gottfried,

Thanks for your letter of March 2, and your kind remarks on my talk. I found it quite a stimulating experience also.

On behalf of my wife and myself we would like to thank you for the hospitable welcome accorded us both at the Dana-Palmer House.

We would be delighted to see you and your wife during the first weekend in April. Do please give us a call.

Sincerely,

Irving S. Friedman

March 7, 1966

NOTES ON THE PRESIDENT'S MEMORANDUM

Quite obviously, the memorandum has been most useful; at the end of the discussion, everyone should have a much better comprehension of how the Bank should operate. The remarks I have are mainly to clarify certain points. I shall try to build on what we have already been working out during the course of the last year and my evaluation of this experience.

I have found difficulties in reconciling the basic principle of having an economic staff with a sense of belonging to a respected and attractive professional Bank-wide group and the division of economists in practice among the various Departments. It is like pouring old wine into new bottles to improve the status and morale of economists, ensure high quality work, avoid misuse of staff and over-staffing, meet Bank priorities, fulfill my own responsibilities as defined by the President and still operate within a structure designed to meet different conditions and frankly not placing the same emphasis on economic work and having less concern with the status of economists or the attractiveness of the World Bank to economists as a place to make a career. I cannot fail to be impressed with the number of economists who have chosen other fields in the Bank or who have left the Bank. However, I have tried to consider these problems within the framework of the existing organizational structure and have discussed these matters with all the Department Directors and the Economic Advisors as well as others. On balance, I believe we should continue to try to work out our problems within the existing structures, but recognize that this means that within the structures there must be changes in outlook and procedures as well as certain inevitable complications. I have found, generally speaking, understanding and acceptance of this principle.

I agree with Mr. Alter's identification of a gray area which overlaps between the Economic Committee and the Loan Committee. Mr. Knapp and I have been trying to work closely together on matters that fall in this area. If problems arise which for some reason cannot be handled within the Loan and Economic Committees, the area departments should consult simultaneously with Mr. Knapp and with me. The way I see the position is that an area department director gets guidance on lending policy from Mr. Knapp, on economic policy from me. Where there is a gray area, Mr. Knapp and I are both concerned.

In the middle of the last paragraph on page 2 of the memorandum it is stated that "Decisions to send in-depth missions are operational decisions that should normally be taken by the Loan Committee". The way I read this is that "Decisions whether a country is a consultative group country or a country where we have major lending responsibilities should normally be taken by the Loan Committee". Once a country has been so classified, the decision whether an in-depth mission should be sent is a decision which should be taken on the initiative of the area department in consultation with the Economics Department and the Projects Department. In cases of differences of view which arise from an economic mission, it should be referred to The Economic Adviser to the President and settled by him. If the mission in question involves lending or project matters as well as economic matters, then it should be settled jointly by Mr. Knapp, Mr. Alderfeld and myself.

The next sentence in the same paragraph has been discussed a great deal. It says that "Decisions on size, composition and terms of reference of all economic missions are the responsibility of the Economics Department with the advice of the area and Administration Departments". The Projects Department has already indicated its interest in this, too. In my view, this should be understood as follows: the area department has the responsibility for initiating action for the decision to be taken on sending an economic mission and on recommending the size, composition and terms of reference. The area department will agree with the Economics Department on these matters. If there is a disagreement between the two departments which cannot be resolved by the two department directors, then, this would go to The Economic Adviser to the President for decision if it is purely an economic mission. Mr. Knapp should, of course, be informed so that he may have the opportunity to discuss the matter with me if there is involved a question that would reflect on the lending activities of the Bank. The Administration Department, of course, is also fully involved in the process of allocation of personnel. I have profited greatly from their cooperation in these activities.

In view of the importance of these matters, may I elaborate somewhat on the new system of organizing economic missions which has been agreed with the Departments which have given us their reactions as requested. The area department, when it wishes to plan to send an economic mission, will fill out the schedule form on this. This sets out the kind of mission proposed, the timing planned, and the probable composition, etc. The Secretary of the Economic Committee who receives the form will pass on copies of the Chairman of the Economic Committee and the Economics, the Projects and the Administration Departments. The area department will also simultaneously be agreeing with the Economics Department on the terms of reference of the mission. In the course of setting up the mission, the area department will be in constant touch with the Economics Department. The monthly reports on the progress of organizing each mission will serve to keep the Economics Department and the other departments that have an interest informed and this will give them an opportunity to take action as necessary. The report will also serve as the central document for planning the priority of economic missions throughout the Bank as well as the deployment of economic personnel in this connection. Through this process, the interests of the Area, the Economics and Projects Departments will have a focus for coordination for their work on these missions in which they are all interested. The Administration Department also with its interest in staffing and recruitment will be centrally involved.

After an economic mission comes back from the field the Area and Economics Departments have agreed that the head of the mission will within the first week prepare a brief back-to-the-office report which will identify the main policy problems as well as give the main findings of the mission. This report will be made jointly to the Area and Economics Departments.

The last sentence in the paragraph in the President's Memorandum on page 2 has also been discussed at length. This is the sentence: "It must be recognized that area department economic advisers and economists, while always subject to the administrative authority of the area director ...". The discussion has indicated some confusion as to its meaning. In my view this should be understood, as follows: the economic advisers and economists in an area department are under the administrative or hierarchic authority of the area department director in all matters. Functionally, as economists they are also subject to the authority of The Economic Adviser to the President. Also, as economists, they

have a specially close relationship to the Economics Department which in Mr. Cope's words should be their "friend, counsel and guide". What this means, for example, is that The Economic Adviser to the President (or the Director of the Economics Department as his deputy) should be consulted on the staffing and qualifications of the more senior economists in a department, that he is responsible for the quality of the economic work in an area department and if he believes that it is deficient, he should take action through the area department director to have the situation corrected. This also means that the area department directors or their economic advisers, however the directors wish to handle the department, (incidentally, another example of their hierarchic or administrative authority) should consult with The Economic Adviser to the President on substantive economic policy matters that come up and be guided by him. It is up to the area directors to decide whether on economic matters they delegate to their economic advisers the responsibility of presenting the department's economic view or whether they wish to be the spokesmen for their department. I have discussed this with all the Department Directors and believe I have a working understanding with them.

With respect to the Economic Committee the Operational Memorandum states that "The Director of the area department concerned will normally attend when one of the countries within his area of responsibility is being considered". This rule has been followed by the Area Directors or their Deputies with very few exceptions. The suggestion has been made that the loan officer concerned be able to attend an Economic Committee meeting. This has happened and I welcome the idea.

As far as the Working Party system is concerned: at the Loan Preparation stage the system of consultation that is now operating and being strengthened is, I think, quite satisfactory whether it bears the formal title of "Working Party" or not in every case. At the lending operation stage, it seems to me that it will be very rare that Economics Department representation will be necessary. If it is, I assume that the Chairman of the Working Party will invite an Economics Department representative to participate. But I would expect that the Area department economist would realize that he is expected to fulfill an important function in the work of the Bank and can expect help when he feels economic considerations or policies are not getting sufficient attention. His normal contact would be his Economic Advisor, who, in turn, could involve Mr. Kamarek or myself either directly or via his Department Director, as the Director sees fit.

Before finishing, I would like to say that I have felt in recent months a growing sense of cooperation and willingness to collaborate by the Directors of the Area Departments, Economics Department and Projects Department, and I want to express my appreciation to those who have kept an open mind and have helped me immeasurably in doing my job.

mw 1

Mr. George D. Woods

March 4, 1966

Irving S. Friedman

"Post War Planning"

1. You will recall that I mentioned to you some time ago the possibility of trying to get a reconsideration of the existing attitudes on development finance within the framework of concerns resulting from the Viet Nam conflict.

2. I am convinced that the basic reason we have the World Bank and the International Monetary Fund, as well as some other agencies like the FAO and WHO, is the reaction during World War II to the existence of worldwide military hostilities. As you will recall there was then a widespread belief that one of the root causes of the War was to be found in the breakdown of the international economic and financial system during the 1930's. At the time memories were still fresh with such experiences as defaults on war debts, failure of reparations, the rise of virulent economic nationalism or autarchy, competitive exchange depreciations, discrimination in foreign trade, "beggar thy neighbor" policies of all kinds, etc. As early as the spring of 1942 -- only a few months after Pearl Harbor -- post-war planning began seriously. The proposals leading to the formation of the IMF were first made by mid-1942. The emphasis on the international financial or monetary system reflected the importance attached to currency problems and the widespread belief that currency instability had been the primary cause of the breakdown of the international economic system and the prolongation of the world depression. Concern with the problems of reconstruction and development came only later when the magnitudes of the wartime devastation became obvious, and with a growing awareness of the problems of the poorer countries, particularly those in Latin America and Asia and recognition that new nations were emerging. Fortunately, however, this concern with reconstruction and development came soon enough to be able to take advantage of the wartime atmosphere to be able to form the World Bank to help prevent future wars.

3. We are obviously, at present, in a period of a recurrent crises and even hostilities in the less developed countries. As you have expressed in a number of speeches, these conditions are a major threat to any system of international security and peace. President Johnson's program on Viet Nam reflects the growing recognition that the only hope for lasting stability and peaceful change is in a major attack on the problems of low living standards and bleak futures. There may well be now a much greater public understanding of the interrelation between the problems of development and world peace than ever existed before because of the continuation and increase in hostilities. I gather that [redacted] to President Johnson's new emphasis on development in Viet Nam was widely well received. This may indicate that the public, at least in the United States, is ready for a change. I dare say that if offered as an attack on the problem of widespread instability leading to military hostilities, public reaction in many countries throughout the world would welcome new and dramatic initiatives in the field of development finance.

4. In some respects planning for the "postwar period" during World War II was facilitated by the very lack of international organizations or other public institutions for dealing with economic and financial problems. International cooperation had taken place, e.g., activities of the League of Nations in Eastern Europe, reparation discussions, and Anglo-American-French arrangements on mutual support of currencies. However, the national public organizations or departments did not have strong vested interests in one kind of approach as against another and the international organizations were nonexistent or relatively unimportant. Now we have had two decades of rich experience including the establishment of many bilateral, regional and multilateral organizations. Many national and international organizations exist, all of them with strong institutional attitudes and preferred procedures. The question seems to be how to move forward by profiting from this rich experience without being held back excessively by institutional and bureaucratic self-interest. Answering this question involves an assessment of postwar experience.

5. My own reading of postwar experience in development finance -- and I claim no novelty for it -- might be summarized as follows:

(a) Development finance can be used to help achieve short-run political objectives, but in the longer run this has reduced the effective gains from the development finance and has not proven to be a satisfactory technique for achieving enduring political relations. Indeed, it has frequently complicated the conduct of diplomatic relations. Investment decisions are within a time dimension that is too long for day to day diplomacy.

(b) National agencies can carry on effective development finance activities. However, national institutions find themselves from time to time subject to domestic pressures to give nondevelopmental considerations more weight in their decision making than developmental considerations. Thus in the selection and execution of projects, or in supporting good economic performance, we have seen successful examples of national activities, but also many examples where it was impossible for the national public institutions to continue to maintain high standards because of all sorts of powerful short-run considerations.

(c) The World Bank Group has demonstrated its ability to maintain high standards of effective use of resources. There would be difficulties in its taking on a much larger load of responsibility, but the framework exists and the tradition of high standards is well established.

(d) National governments have failed thus far to educate their public or themselves on the practical implications of the chronic instability and need for greater efforts in relation to the less developed world. There are speeches made everywhere about the gravity of the problem, and such speeches are made by heads of states. However, in practice, in allocating domestic resources and manpower, the problems of the developing countries have been given a relatively low order of priority. This has meant repeated disappointments for the less developed countries, mutual loss of confidence in the intentions, motives and even good faith of countries dealing with each other. It has meant widespread frustration among those responsible for development finance in the national governments. In some cases it has led to cynicism becoming the personal protective

mechanism against repeated disappointments.

(e) National efforts which are based essentially on the philosophy of doing more of the same are less likely to be successful than efforts which are frankly novel. The disillusionment of what has happened in the past cannot be eradicated nor memories erased. My impression is that the World Bank Group activities have not suffered the same fate as national activities in this respect because they are still regarded as relatively new and different. Thus, a large shift in development finance from a national to a multilateral basis would be a novelty -- not more of the same thing.

(f) Countries in the industrial world may well experience either a shortage of savings for investment or balance of payments difficulties or both for some time. However, the needs for development finance assistance in the poor countries will go on and must be met. Fortunately the magnitudes of development finance are relatively small; however, this is an advantage only if expenditures on development finance are given a high priority by governments. In the world of a shortage of savings or capital and balance of payments difficulties, any low order priority expenditure for whatever purpose -- domestic or international -- is going to find difficulty in being accepted.

(g) To obtain a truly new direction or truly new emphasis the leadership must come from the top political level. The advocacy can be done by the President of the World Bank Group, but new decisions from national governments are required of a kind which can only be made by heads of state and their immediate counsellors.

(h) The areas in which there are the possibilities of new things being done in development finance are:

(i) overcoming the major elements of disturbing uncertainties for developing countries arising from factors beyond their control but which can be offset by actions by the industrial countries. These include uncertainties arising from export fluctuations; the prevalence of annual appropriations instead of longer-term appropriations for development finance; sudden changes in the prices of imports and changes in flows of private capital. It would be possible to have a comprehensive program including our Supplementary Finance Scheme to eliminate such uncertainties for countries pursuing sound development policies;

(ii) placing development finance on a multilateral basis. This need not include export promotion and assistance given for political resources;

(iii) agreement on techniques, e.g., kinds of taxation, in the developed countries which would provide a steady and growing volume of resources for development to be channeled through agencies which would guarantee the effective use of such resources;

(iv) acceptance of changes in commercial policies, e.g., tariffs of the developed countries, designed to promote development;

- (v) divorcing the amount of contributions for development from any over-simplified criterion like 1% of national income and instead relate contributions to changing conditions in the developing countries, while maintaining a steady flow of internationally agreed resources;
- (vi) formulation and acceptance of the concept of collective responsibility by the industrial countries for agreed levels and terms of development finance;
- (vii) developing further the concept of World Bank leadership in coordinating mechanisms such as consultative groups, with willingness by the Bank to be the mediator or bridge for industrial countries and therefore taking the responsibility for coming up with practical answers to the hard questions;
- (viii) the pursuit of deliberate programs designed to eliminate in one less developed country after another the factors which inhibit the flows of private capital, e.g., the Convention for Settlement of Investment Disputes, the draft Convention on the Protection of Foreign Property ~~Controls~~, avoidance of excessive supplier credits and dangers of default, etc. Only through the reintroduction of the dynamics of private investment can we really hope to change the outlook for relatively slow rates of growth. If we can create conditions of political and social stability, we may create a number of countries like Japan with their own "miracles", but this will only happen when the basic psychology of government and business within a country is altered, and incentives to produce and invest are accepted as basic economics;
- (ix) fundamental to social and political stability is to insure that people have enough to eat and have more or less continuous employment. This would guide all policy-makers.

MW1

March 2, 1966

Dear Morris,

I found your letter of February 25 and the attachments most interesting. I am looking forward to seeing the rest of the publication.

Our Economics crew here has also been working on the compilation of internationally comparable data in the field of economic development and are setting up a system to keep the information current as well as to continuously improve the coverage and quality of the data. We all agree that such data are essential and worth the effort to make them reliable and internationally comparable.

If you are down in Washington, you might find it worthwhile to visit with Friedman, who is my economic adviser, or with Kamarck, who is the Director of the Economics Department. I am sure they will be interested in meeting you. We would also be interested in getting our statisticians in touch with your statisticians at some point.

With warm regards,

Sincerely yours,

George D. Woods

Mr. Morris L. Ernst
Greenbaum, Wolfe & Ernst
285 Madison Avenue
New York, N. Y. 10017

ISFriedman/A. Kamarck/dg

MW 1

Mr. Woods

March 3, 1966

Irving S. Friedman

Switzerland

You may be interested in the attached memoranda on Switzerland which were done to give Geoffrey some background for his Swiss trip.

Att.

mwl

Mr. Wilson

March 3, 1966

Irving S. Friedman

Switzerland

I am attaching two memoranda on Switzerland. The top one may be regarded as a summary of the second but more directly pointed at the problem of borrowing.

Attachments.

MISC.

Mr. O. Bajany

March 3, 1966

Irving S. Friedman

Letter of the U.N. Centre for Industrial Development

I am afraid that I was not clear to Mr. Hilton. I had then and have now no knowledge of any Inter-regional Symposium on the Development of Metalworking Industries in Developing Countries to be held in Moscow. Although I must say I now appreciate your replies which at first seemed quite mysterious to me. I was referring to Mr. Basch and the memoranda received from him which had been circulated to Mr. Rosen and others in IFC. In the meantime, Mr. Basch has been in touch with Mr. Diamond, and from my point of view we can regard the matter as closed.

I regret this mix-up, but with all the requests we have been receiving from the U.N. I can readily appreciate how it might occur.

- cc: Mr. Rosen
- Mr. Dodd
- Mr. Buchs
- Mr. Hassan
- Mr. Consolo

misc.

Mr. William D. S. Fraser

March 3, 1966

Irving S. Friedman

Letter to Miss Ann Satterthwaite

Do you see any objection to the attached letter to Miss Satterthwaite? As you undoubtedly know, the Radcliffe Club and the associated Harvard group contain many friends of the Bank. I do hope that our suggestion of \$43.27 is a reasonable one. Miss Satterthwaite kindly said that all expenses incurred by the cocktail party should be borne by the Radcliffe Club as no or few Bank employees attended. I am afraid this showed her lack of acquaintance with Bank employees since I was there and saw a goodly number of them!

Attachment

MISC

March 3, 1966

Dear Miss Satterthwaite,

I was glad to receive your letter of February 21. May I say again that I enjoyed my participation in the affair and am sure that the Bank and Fund employees who came to the lecture also enjoyed it. I gather that you have already heard from Mr. Fraser as to the Bank's contribution to the expenses incurred. As you can probably guess, I am not up on this kind of thing but would like to feel assured that you felt the Bank's reply was reasonable.

Sincerely yours,

Irving S. Friedman

Miss Ann Satterthwaite
President
Radcliffe Club
1320 27th Street, N. W.
Washington, D. C.

CB

Mr. J. Burke Knapp

March 3, 1966

Irving S. Friedman

YUGOSLAVIA - Economic Mission

I would appreciate your telling Mr. Cope that a copy of this should have been sent to me, if you agree. Thank you.

Attachment

misc

Mr. Richard H. Demuth

March 2, 1966

Irving S. Friedman

"Overseas Development Group"

I would go along with your reaction and Kamarck's to this. How about encouraging existing institutes like Marquez's C.E.M.L.A. to join *attend* their activities somewhat so that you could include subjects more directly pertinent to economic development. In this way, perhaps with small amount of additional financial expenditure we may make a considerable contribution to our encouragement of teaching activities. What do you think?

Attachment

m w l

The Acting Secretary

March 2, 1966

Irving S. Friedman

Memorandum of Meeting with General Advisory Committee on Foreign Assistance
Program held in the Board Room on February 7, 1966, at 11:15 a.m.

I would have thought that the remarks made by Hoffman on consultative groups and myself on the prospects for development assistance and emphasis on performance were worth recording if it is not too late. These comments, you will recall, were made at the end of the luncheon but were a part of the discussion as they had been promised by the President at the meeting.

Files

March 2, 1966

Irving S. Friedman

Mr. Antonin Basch

Mr. Friedman saw Mr. Basch today. Memorandum sent to Mr. Kamarck on outcome of discussions.

Blue

Mr. Bimal Jalan

March 2, 1966

Irving S. Friedman

"Regional Developing Financing" by Professor Henry Bloch

Could you prepare a memorandum either from me to you or me to Mr. Woods giving in essence the Bloch proposal and any thoughts that you may have on it, and I will add on my thoughts on my own.

Mr. Andrew M. Kamarck

March 2, 1966

Irving S. Friedman

Inclusion of Index in Bank Economic Reports

Did you have a reaction to Demuth's memorandum of February 23 on the use of indices. I would have thought that a table of contents was sufficient unless an index took the breakdown much further. However, I will be glad to be guided by whatever you feel and would appreciate your giving Demuth your reactions.

U/C-1

Mr. Andrew M. Kamarck

March 2, 1966

Irving S. Friedman

Items left by Dr. Basch.

Would you please discuss with Demuth or Hoffman the possibility of their Department doing something on Item 3. This was left behind by Basch, and we are doing this at his request. He will be speaking to Bill Diamond on Item 1. I gather that you have reacted more or less favorably to 5, 6 and 7. I told him that we would also consider 2. In any case, we would not try to do more than would be a by-product of our work except perhaps in the case of Item 5.

Attachment

CE

Mr. N. A. Sarma

March 2, 1966

Irving S. Friedman

RUSH

Yugoslavia

With respect to your memorandum of March 2, could you inform me whether these are agreed terms of reference. If yes, with whom were they agreed?

Kamarek

Mr. Andrew M. Kamarek

March 2, 1966

Irving S. Friedman

Economic Mission to Jordan

Were you consulted on the sending of the economic mission to Jordan? I would like to have your reply in writing with a copy to Mr. Knapp.

Mr. Kamarck

March 2, 1966

Irving S. Friedman

Mr. Dagfin Juel

Why don't we take this fellow on for a limited period of time, say two years, with the idea that he would work for Dave Gordon. Do you think it's a good idea to send a letter to Dave asking what he thinks of this sort of person or should we just go ahead.

Att.

m w 1

Mr. Woods

March 2, 1966

Irving S. Friedman

Letter from President Johnson

I was rather intrigued by the invitation from President Johnson to have you communicate your views to the Senate and House foreign aid committees by letter or otherwise.

May I suggest for your consideration a letter along the attached lines.

President Johnson's letter also opens up the possibilities of inviting these people as guests of the Bank to spend some time with you, just as his advisory committee did the other day.

As for the appropriateness of such action I would think that the President's invitation would make it appropriate and that this does not raise the same kind of question as being asked to testify before a Congressional committee. However, I have not discussed this with anyone on the staff or with Mr. Merchant.

Attachment

Draft letters to Chairmen of Senate and House Foreign Aid Committees

Dear

On February 8, 1966 I had the occasion to send a letter to President Johnson on the U.S. foreign aid bill. President Johnson, in his reply, has kindly suggested that the members of the Senate and House foreign aid committees would be equally interested in hearing from me on this matter and wondered whether I would consider it appropriate to communicate my views to your committees by letter or otherwise.

In view of the outstanding role played by the United States in the field of development finance I regard it as a privilege to be able to acquaint your committees with my views. I am therefore taking the liberty of sending you a copy of the letter which I sent to President Johnson. [I would be happy, if you so desired, to have you and the members of your committee visit with us at the World Bank, if this would be helpful in understanding the role played by the World Bank Group in development finance.]

mwl

Mr. George D. Woods

March 1, 1966

Irving S. Friedman

IDA Replenishment and Balance of Payment Difficulties

1. Secretary of the Treasury Fowler, in his address to the Atlantic Council on December 12, 1965, suggested that there be an increase in contributions by the United States to the IDA provided that other countries were willing to take their part in the burden sharing. He went on to say that he felt that ways and procedures should be found to reflect the willingness of the developed countries to shoulder these larger commitments subject to the condition that when the time comes to fulfill them arrives, "the expanded obligations need not be performed by those developed countries in serious balance of payments difficulties." He also felt that some type of arrangement looking towards the acceptance of increased development aid responsibilities by countries in balance of payments surplus made sense from both the international monetary and development standpoints.
2. This memorandum suggests how Secretary Fowler's thinking on deficit and surplus countries might be combined into a scheme for making larger contributions to IDA. It does not concern itself with legalities, including legally precise use of words. It is presumed that what Secretary Fowler's suggestion for excusing a country in serious balance of payments difficulties from its increased contribution refers not to commitments to IDA but to the actual disbursements or calls for funds since commitments don't affect the balance of payments of a contribution for 3 or 4 years.
3. It is easy to demonstrate that development assistance requires a transfer of real resources from the industrial to the less developed countries and, therefore, is only indirectly related to the question of the use of balance of payments surpluses or to the problem of balance of payments deficits. However, in practice the industrial countries may well be influenced in their willingness to provide official funds abroad by their balance of payments position. This has been notably true in the case of the United Kingdom. In the case of the United States in recent years it is more difficult to assess. It is probably a safe guess that without the balance of payments difficulties U.S. aid would not have been tied and might have been larger. In any case it would have been easier to advocate foreign aid increases; today, it is undoubtedly a major consideration in both bilateral and multilateral aid.
4. The IDA cannot function except with virtually assured funds. Development consists mostly of investment decisions which both take a considerable time to prepare, to make and to execute. For this there must be a continuous flow of funds to meet commitments. Major wastage and disorder would be caused by unexpected interruptions due to an interruption in the flow of funds. This is the basic difficulty in Secretary Fowler's suggestion, particularly if applied to a major contribution and a large portion of its total contribution.

or

5. However, Secretary Fowler's suggestions can be made acceptable and even attractive for IDA operations, if part of the contributions of a group of industrial countries to IDA could be a collective responsibility with the right of a country in serious balance of payments difficulties to be excused from any previous commitment to meet calls from IDA. It need not include all Part II countries, e.g. it could be the Group of the Ten or a new grouping for this purpose of like-minded countries. As long as the countries combined undertook to make available a certain amount of funds per year irrespective of their own individual balance of payments positions, IDA could carry on its activities with the certainty of needed funds. This collective approach could be applied whether the increased contributions to IDA were in the form of budgetary contributions or some combination of both.

6. This approach would be essentially in line with the philosophy expressed by Secretary Fowler with respect to balance of payments surplus countries, i.e., such surpluses should be plowed back into development finance. It is fairly certain that when any major contributor to IDA is in serious balance of payments difficulties, other industrial countries will be experiencing surpluses. By combining the Secretary's approach on surpluses with his approach on deficit countries, it is possible to evolve a mechanism whereby the countries in balance of payments surplus use part or whole of this surplus to assist development by accepting part of the responsibility of the deficit country to IDA, perhaps on a reimbursable basis. Such a mechanism is outlined in paragraph 9 below.

7. Industrial creditor countries will have, from time to time, balance of payments difficulties which may result in pressures hostile to assisting the development of the poorer countries. At present an industrial country in balance of payments difficulties is expected to take the necessary corrective measures to overcome its external difficulties without damaging international prosperity, for example, avoiding governmental restrictions on payments for trade and services. To facilitate an orderly and non-destructive adjustment process, assistance is provided through the IMF swap arrangements, inter-Central Bank cooperation, etc. If made into a broad principle, the new aspect in what is being suggested below is that industrial countries in balance of payments difficulties would exclude from possible adjustment measures, those which are harmful to the development process in the poor countries. At the same time, they will be assisted in doing so by the other industrial countries experiencing balance of payments surpluses. As a broad principle it could be applied to all aid and, indeed, even to foreign trade policy. Presumably the other industrial countries would wish to be assured that the industrial country in balance of payments difficulty is taking measures which they regard as appropriate to correct balance of payments deficits (so-called "multilateral surveillance") and that the assistance which they are rendering is being well used by the poor developing country.

8. The principle could be readily applied to IDA contributions. The advantage of IDA is the world-wide confidence that it ensures the productive

use of IDA credits in countries following good economic policies. (The political acceptability of such increased international cooperation is not judged.) It embodies our expressed philosophy that the enlightened self-interest of creditor countries is served by preventing the disruption of good development programs and policies from causes beyond the control of the poor developing country.

9. The basic mechanism for such an approach could be that industrial donor countries prepared to cooperate in this fashion agree as follows:

(a) There would be an amount of contribution to IDA unrelated to balance of payments difficulties; funds up to these amounts would be callable from countries by the IDA without regard to balance of payments difficulties.

(b) Contributions above these amounts, whether from budgets or public borrowing -- would be subject to the condition that a country in balance of payments difficulties would not be called on by the IDA for these additional amounts if it is internationally agreed that a situation of serious balance of payments difficulties exists and the collective group agrees that the excused contribution would be offset by the group.

(c) The distribution of this excused portion could be related to balance of payments surpluses. For example, countries experiencing surpluses could divide the unexcused portion among themselves in relation to their surpluses. If, most extraordinarily, the combined surpluses were not as large as the excused commitment, the IERD contribution might make up the necessarily very small difference. IDA would be informed what countries were the substitutes for the excused country, for how long and for what amounts.

(d) The excused amounts would be regarded as loans, probably medium-term. Such terms would be agreed in advance as part of setting up the scheme.

(e) The group would decide to be bound on the balance of payments question by the decision of the IMF preferably, or the Group of the Ten, or the members of this special group. The IMF performs this service now for the GATT and under the Anglo-American Loan Agreement.

(f) Various alternatives to the above suggest themselves. It is conceivable that the loans would not be fixed in term, but instead repaid by reversal transactions when the country in balance of payments difficulties became, in turn, a surplus country. (It is a safe assumption that over time all the industrial countries will experience periods of deficits and surpluses). It is even conceivable that the lender could be the IERD or the IMF. The IERD could loan or grant the excused amount to the IDA, while the country in difficulties undertook to reimburse or to repay the IERD or undertook to guarantee the IDA repayment or reimbursement or the collective group undertook these obligations. The IMF could be the source of assistance to the country in balance of payments difficulties instead of the group; with the country maintaining its commitment to IDA.

(g) Any country's commitment to IDA would be outstanding until the other countries had agreed to the existence of the balance of payments difficulties and a willingness to assume this excused obligation to IDA. During this interim discussion period, various techniques are possible, such as the country in difficulty continuing to make contributions to IDA with a possibility of reimbursement; or, the World Bank Group trying to manage its affairs in such a way as to be offsetting the adverse balance of payments impact of any current IDA operations. If the contribution in question is relatively small, IDA might have enough funds on hand to continue its activities with the understanding that it would be reimbursed when the decision was reached on the country in difficulties. Short-term accommodation might be obtained from the IBRD.

10. If increased contributions to IDA were in the form of loans, then a country in balance of payments difficulties could suspend use of its line of credit, while others increase their lines of credit to IDA. Another possibility is that loans already made become useable foreign exchange assets, e.g. sold to other countries by prior agreement or even purchased by the IBRD for needed currencies with repurchase agreements operating with a fixed time limit - say five years. Thus, the country could continue to allow its line of credit to IDA to be used.

11. If large enough, the above scheme would meet the political need to do something for the LDC's when the industrial countries are considering or adopting an international monetary reform. Instead of complicating the operation of the international monetary system by marrying with its considerations of development finance, it would do something significant for the LDC's and still keep these problems distinct. The poor countries could rely on a largely increased IDA for development finance on terms suited to their economic and financial conditions without fear that balance of payments difficulties of industrial countries would interrupt the IDA's business activities - both in meeting past credit commitments to its borrowers or making new ones. This could be made a consequence of the strengthened confidence in the international monetary system and, therefore, a sharing by the LDC's in the fruits of the discussions and decisions on the monetary system and liquidity.

international

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WBG ARCHIVES

March 1, 1966

Mr. Knapp

Irving S. Friedman

Attendance at Economic Committee Meetings

Today the question came up of attendance at an Economic Committee meeting. You will recall that according to the Operational Memoranda, and I quote, "The Director of the area department concerned will normally attend when one of the countries within his area of responsibility is being considered."

Mr. Cope had informed my office that he and Mr. Fontaine would not be coming to our meeting on Finland. I spoke to him about this and he made clear that as far as he was concerned he did not intend to come to any of the Economic Committee meetings as he could not be concerned with such matters.

I told him that I did not know what I was going to do about this as obviously it was contrary to what was in the Operational Memorandum, which he said he knew ~~it was~~ and that I was free to do whatever I thought was appropriate.

I am not bringing this to Mr. Woods's attention ^{at} this time since I hope we can settle it among ourselves, but of course would have no choice but to do so if we cannot find an agreeable solution.

I do not think that I can differentiate between Department Directors in dealing with them.

Please do not take this as in any way a reflection on Mr. Thompson. I am happy to have him as a member of my Committee and regard him as both a competent and cooperative person.

cc: Mr. Cope

P-1

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AUG 16 2023

Personal

WBG ARCHIVES

March 1, 1966

My dear Sami,

I am writing to you on behalf of a friend, Professor Arthur Smithies, of Harvard University. Perhaps you may know him. He is, of course, one of America's most distinguished economists, and in recent years has been specializing on problems of the less developed countries. In the past he has been concerned with monetary and fiscal problems and was one of the more important members of the U.S. delegation to Bretton Woods. I was visiting Harvard this weekend and was having some long conversations with him. He told me he was going to Baghdad to give a series of lectures in August. I asked him if he was going to any other countries and he said no, but would hope to do so if he had an opportunity.

In Iraq he will be under the auspices of the Central Bank, and that inspired me to wonder whether you might like to invite him around the same time. I know that you would like each other and he always has interesting things to say. If you wish to write to him directly his address is as follows:

Professor Arthur Smithies
Harvard University
Cambridge, Massachusetts.

However, if you wish to correspond through me, if at all, I would be glad to pass on any message.

Needless to say this is just a thought of mine and there would be no embarrassment to anyone if this suggestion is not a good one or feasible.

I have been very busy in the Bank. It is proving to be as interesting and as hard as I had hoped and expected, but there seems to be a general feeling that we are accomplishing some worthwhile things. Have you any plans for visiting Washington before the Governors' Conference? If you do please save some time for me.

With warm regards,

Yours sincerely,

Irving S. Friedman

His Excellency
Mehdi Sami
Governor
Bank Melli
Teheran, Iran

UNC - 8
(Dell concept.)

March 1, 1966

Dear Sidney,

I have been out of the office and just returned this morning. In the meantime I have looked more carefully at your February 17 draft and I think it should be very useful. However, may I suggest the following changes:

Delete 1. (b) and (c) - I believe this will tend to broaden the already broad discussion and might take it off the track.

Delete 2. (b) - I believe any reference to the administering agency might be premature.

3. (a) might read as follows: "That shortfalls in export earnings must be measured against objective estimates: if so, do projections of the type provided for in the Bank staff study constitute an acceptable method? What would be the relationship"

3. (c) - I suggest the deletion of the second sentence, again on the grounds that it might be broadening the discussion more than you want and could prove to be a red herring.

3. (e) and (f) - delete; on the grounds that it is already caught up in 3. (d).

Delete 4. (c) - since I think it is covered in 4. (a).

4. (e) - deletion of second and third sentences. I believe the questions are caught up in the first sentence and perhaps sound more contentious than necessary.

4. (f) - might read as follows: "To what extent would the stabilization programmes of the IMF, be similar to...."

5. (a) - might read as follows: delete last sentence and substitute "Are the arguments for the \$300 to \$400 million per year figure reasonable?"

Delete 5. (c) - because I believe it is well covered by 5. (b).

Delete 6. (a) - could become a red herring.

6. (c) - might read as follows: "Should all adverse movements in export earnings that can be foreseen be excluded from the scope of the scheme?" Delete rest of paragraph.

Needless to say these are merely informal suggestions from me for whatever use they are.

It was nice seeing you the other day in Washington.

Yours sincerely,

Irving S. Friedman

Mr. Sidney Dell
United Nations Conference on Trade
and Development
New York Office of UNCTAD
United Nations
New York, N.Y.

*cc to Kalmanoff
(for files)*

IDA REPLENISHMENT

1. To make a significant contribution to both the problems of development and indebtedness IDA must be much bigger than it is at present. IDA now represents only about 5 per cent or less of the total volume of aid going to the developing countries.
2. The resources available to IDA have been provided in three principal forms: initial subscriptions of members, supplementary contributions by Part I countries and grants from the World Bank. The initial subscriptions determine the relative voting power in the Executive Board with the United States having 26 per cent of the total votes. The other sources of funds, including the supplementary contributions, have not affected the relative voting strength. At present IDA is receiving about \$250 million a year from the Part I countries and \$75 million grants from the World Bank in fiscal 1966. The United States contribution is \$104 million a year or 41.4 per cent of the total provided by Part I countries.
3. The needed large increase in IDA resources is probably not compatible with the maintenance of the principle that the United States provides 40 per cent of the total. It is impossible to say at this time by what amount the European donors would be prepared to increase their contributions to IDA. However, even a doubling of IDA would mean only an inadequate \$500 million a year -- and a doubling of IDA contributions from many of the European countries would seem to be an optimistic assumption. Therefore the alternatives are either to increase the percentage of U.S. contribution or to find an additional technique of replenishing IDA.
4. The United States could increase its contribution to say 50 per cent of the total using the present mechanism of contributions from budgets without affecting the international character of IDA. A higher proportion, however, might seriously affect this international character, even though it might be justified on the basis of the relative size and wealth of the United States.
5. The dilemma of how to make IDA big enough to do its job without seriously damaging its international character could be resolved by using the loan technique in addition to the present technique. A large loan from the United States to IDA, whether or not accompanied by similar loans from others, would simply not have the same implications as a similar increase in U.S. contributions unmatched by others. A loan would be a liability of IDA to the United States; supplementary contributions and grants do not create such liabilities.
6. The terms and conditions of loans to IDA could match the terms on which the funds were re-loaned by IDA to recipient countries. Loans to IDA would be supported by: (a) all the assets of IDA consisting of loans for productive investment to the poorest countries of the world made from total available resources in hard currencies aggregating approximately \$1.7 billion; (b) loans of a similar type made in the future from the proceeds of the new loan to IDA; (c) loans of a similar type made in the future on the basis of additional grants from the Part I countries and the World Bank; (d) the record of management of the World Bank Group in the making and supervising of such loans in the past. Should the loan technique be launched by the United States other Part I countries might elect to follow the precedent thus created.
7. It is understood that analyses made by the World Bank staff indicates that the U.S. contribution to IDA in whatever form made would have very little or no effect on the U.S. balance of payments for at least three years. Moreover, in whatever form of contribution the U.S. commitment for replenishment of IDA is made, actual cash disbursements to IDA would not be necessary for three years. Even though actual disbursements would not take place for a number of years, the knowledge that such funds would be forthcoming would enable the IDA to make a more effective contribution to existing development problems.

February 11, 1966

The World Bank Proposal on Supplementary Finance

by

Irving S. Friedman

The problem of the consequences for development of unexpected export earnings decline was a major preoccupation of the United Nations Conference on Trade and Development (UNCTAD), which brought together in 1964 representatives of 116 governments in Geneva. The Conference adopted a resolution requesting the World Bank to study the problem and, if feasible, to work out a scheme to deal with it. The resolution was sponsored originally by the United Kingdom and Sweden and was adopted by a vote of 106 to none with 10 abstentions. The Study was completed last December and submitted to Secretary-General U Thant of the United Nations by Mr. George D. Woods, President of the World Bank.*

Foreign exchange resources are a critical element in the ability of a country to carry on a development or growth program. The less developed countries, taken as a group, do not have large foreign assets or foreign exchange reserves on which to draw for development purposes. They must depend on current flows of foreign exchange whether earned from the export of goods and services or made available by inflows of public and private capital. Export earnings are by far the largest single source of foreign exchange by the less developed countries accounting on an average of about 80 per cent of the total. World markets for primary commodities are volatile while long-term growth of demand is slow. Since most low income countries are almost wholly dependent upon primary commodities for their export earnings, their development programs are peculiarly vulnerable to unpredictable declines in commodity prices or earnings. The ultimate resolution of this difficulty must be sought through diversification of production and exports, combined with access to foreign markets but this requires the successful implementation of development policies.

* In accordance with normal World Bank policy, the Study represents the views of the staff and does not purport to reflect those of the Executive Directors or of the governments they represent.

The aim of the World Bank's proposal on supplementary financial measures is to help protect the development process policies from the impact of unexpected declines in export proceeds. The Bank Study, therefore, incorporates proposals for an international mechanism designed to give reason to many developing countries for new confidence that their own best efforts to achieve orderly growth would not be frustrated by this particular perplexing uncertainty. Furthermore, the scheme is designed to help improve the economic performance of developing countries and thus the effectiveness of external assistance in a manner acceptable both to the developing countries and to the capital exporting countries. It deals with only one aspect of the problem of economic development but aims to do so in such a way as to strengthen the entire development process and to bring more order and objectivity into the mechanism for transferring resources from the more developed to the less developed countries.

The scheme itself is a relatively simple one, but its effective administration would require a high degree of international cooperation, as well as an experienced, objective, and able staff. At the same time, the very existence of such a mechanism might help to generate the kind of cooperation its success would demand.

The scheme would be administered by an international agency, which might be one already existing or a new one established for the purpose. Supporting member governments would provide resources permitting operations during an initial five-year period at a level of \$300 million to \$400 million per year. A small part of these funds would be made available in cash, the remainder in promissory notes which could be cashed without delay if the funds were needed. Benefits would be available to all developing countries prepared to meet the prescribed criteria for obtaining assurance against disruption of their development programs arising from unexpected declines in export earnings.

The scheme hinges upon a provision that an understanding be arrived at in advance between the international administering agency and the individual country, concerning the development program and related policies to be adhered to in order

to qualify the country for assistance if subsequent shortfalls in export earnings should threaten disruption of the program. This operating agreement would consist of three major elements, which I shall outline briefly before expanding upon the rationale.

The first requirement would be a mutually agreed projection of "reasonable expectations" of export earnings. This projection would extend over the time period used ordinarily in development programs, perhaps five years, and would be arrived at in the context of an understanding on the program as a whole. It would be subject to review on the initiative of either party, but the country concerned could not revise it except by agreement with the agency and as part of an agreed general recasting of the program. Actual export receipts in excess of the projection are called "overages", and the opposite are "shortfalls". The time period of the understanding is called the "projection period" -- the scheme is equivalent to what is frequently called the "plan period" in developing countries.

During the period of the understanding, referred to as the "projection period" in the Study, any export earnings in excess of the projection, i.e., overages, would be used as a primary resource to offset any shortfalls that might occur. At the end of the agreed period, any such "overages" remaining would be released, while any balance of shortfalls would be translated into long-term debt to the agency on terms similar to those the country would be accorded in connection with regular development finance.

The second part of the understanding would be on basic development policies to be pursued by the country during the projection period. This "policy package" would vary from country to country, depending upon the circumstances. Arbitrary and standardized criteria would be avoided; much reliance would be placed on the objectivity and competency of the agency to agree on policy packages which were realistically adopted to conditions in a country but which were designed to achieve the objectives of economic development. For each country, specific quantifiable

guides would be established wherever possible by which to measure progress in implementing the agreed policies. The precision of such techniques would vary, but experience indicates that sufficiently reliable standards can be found.

The "policy package" would include agreement on a financing plan and a forecast of the balance of payments for the period spanned by the projection of export earnings. It would not impose "planned economies" on countries with "non-planned" economies in the sense of increasing governmental controls over the private sector or reducing the relative importance of the private sector. It would encourage planning a programming as used by development economists or technicians to describe a coherent and stubbornly pursued set of governmental policies designed to achieve desired improvements in the structure and level of production and productivity. The financing plan would cover public investment, the best estimate possible of private investment, including levels of investment in the principal sectors, and projections of financing from domestic and external sources. The balance of payments forecast would include estimates of the principal components of exports and imports, use of reserves and the various categories of external finance. The financing plan and the balance of payments projection would cover the major criteria and essential policies and would be as detailed as necessary for the purpose of the scheme. Continuous contact would be maintained between the international agency and the government concerned to adapt the "policy package" to changing conditions, if necessary from the viewpoint of maintaining an effective development program. The ability of the agency to maintain high standards of technical competency, objectivity and performance would be a critical element in the success of the proposed scheme.

In many developing countries it is difficult or impossible to formulate coherent development programs for the whole economy. In some countries there may not be an effective administrative framework, an adequate statistical base or the political and social character of the country might not make development programming desirable. In these circumstances, the process I have outlined would apply initially

only to that part of the economy which may be susceptible to systematic policy formulation. Depending upon the individual case, a partial public investment "action plan" might be agreed upon and combined with estimates of the most likely developments in the private sector. In such cases reliance would have to be placed even more on the pursuit of agreed policies to indicate whether a country was eligible to receive assistance; the potential disruption to the development process would be seen in the inability of the country to pursue the agreed policies because of an unexpected decline in export proceeds unless supplementary foreign exchange assistance was forthcoming.

The third major element in the agency-country agreement would be an understanding on steps the government should take in order to adjust to a possible shortfall in its export earnings without disrupting the agreed development program. First would be the provision to apply against the shortfall any accumulated overages in export earnings during a projection period. Second would be an understanding on appropriate use of the country's reserves. If these were inadequate, the compensatory financing facility of the IMF might be drawn upon. Provisions for further action would depend upon the circumstances of the country. For example, additional drawing rights in the IMF might be available or other sources of international assistance, or the government might have latitude for the restriction of some imports or revision of the tax structure, etc. The employment of these or other expedients appropriate to the country in such a predicament would be as explicit as possible in the agreement. Their use would be guided by the controlling principle of avoiding disruption of the development program.

In some cases countries experiencing shortfalls might need no assistance from the scheme, e.g., if they were small and short-lived or if other sources of foreign exchange financing were ample for the purpose. Thus, the agency would be a lender of last resort, but its assistance in case of need would be both timely, certain, and sufficient. Under the proposed scheme, the agency would act quickly to fill the need for supplementary resources if it were pursuing the policies agreed in the

understanding with the country and a shortfall occurred which threatened disruption and could not otherwise be overcome or offset. On the other hand, if failure to pursue such policies were to jeopardize the country's eligibility for assistance, the government would be so informed without delay and rectification of the shortcoming would be sought through consultation. The scheme aims to provide countries with both an incentive and encouragement to give a very high priority to the pursuit of economic development objectives.

Before devising the scheme just outlined, we attempted to test the validity of the assumptions upon which the UNCTAD resolution was based. For example, is the problem of shortfalls in export earnings as real and serious as it has been assumed to be? Is it amenable to solution, or at least can its effects be mitigated significantly, by special international action such as the resolution contemplates and we have proposed? Our affirmative answers rest in part upon the exploration of other questions: To what extent is it possible to give concrete expression to the term "reasonable expectations of export earnings?" As a part of the question of feasibility, what level of supplementary resources might be required to achieve the desired objective?

It is important first to be clear about the purpose of the scheme as envisaged in the resolution. It is strictly limited: to help avoid disruption of development programs resulting from "adverse movements in export proceeds which prove to be of a nature or duration which cannot adequately be dealt with by short-term balance of payments support." An "adverse movement" is defined in the resolution as "a shortfall from reasonable expectations of the level of export proceeds".

Thus, by definition, it is not the purpose of the scheme to add to the amount of ordinary external development assistance. Indeed, if it were technically possible to foresee all adverse movements, they would be incorporated in "reasonable expectations" and there would be no shortfalls of export earnings in this sense. Adverse trends in export earnings would affect the scale and structure of the development program but this could be reflected in the pre-arranged program and the external

finance obtained for it. There might still be gaps between expected totals of foreign exchange earned or provided from external sources and the amount required by development programs, but this is part of the regular problem of development finance and does not deal with the special problem of uncertainty to which the scheme is addressed. Any development program must be based on some assumptions with respect to export earnings. It is by far the largest single source of foreign exchange to a developing country. Investment decisions cannot be made without a judgment on the foreign exchange income which will be available in the future to pay for needed imports, to service debt, etc. Therefore, it is increasingly accepted practice to project exports for a period of years ahead. This projection is not a prediction of what will actually happen, but rather the figure which seems sensible to assume for the collection of investment and procurement decisions collectively labeled the development program. All the facts and analysis available to judge the likely export receipts are used, and in this sense it is a forecast, but made with the prior knowledge that the number of the determinants of the actual outcome are not predictable. If actualities are substantially less than their projection, these decisions can either be altered with the likelihood of at least retarding the development program or they can be maintained or adapted in such a way as to allow the development program to proceed. New external conditions may well necessitate a change in the program, but these changes will be made from the viewpoint of optimum development, not the arbitrary need to conform to unexpectedly reduced level of foreign exchange receipts.

For the purpose of our Study, therefore, the term "reasonable expectations" is taken to mean objective estimates and the first practical problem was to determine the feasibility of making such estimates within an acceptable margin of error for the purpose of the contemplated scheme.

World Bank economists have had considerable experience in forecasting the export earnings of developing countries as part of the process of determining the creditworthiness of prospective borrowers and assessing their economic positions and prospects for development. We, therefore, began by analyzing this available body of experience. We decided to use the projections made by the World Bank in the past as the raw material for developing the "expectations" side of our analysis, and compare them with actual export performance of countries on the basis of available trade statistics. An examination of available Bank reports yielded 113 quantitative projections made by Bank economists during the years from 1949 through 1964 covering projections extending for various periods of time, but typically 5 years, into the future. There was, however, one difficulty in using these projections for the purposes of the problem under investigation. Since they were made for operational purposes over a rather long span of time the projections did not all have the same base and target years. Nor were the same number of projections made for each country. To overcome this difficulty posed by the multiplicity of overlapping projections available for most countries and to facilitate comparison of each country's "reasonable expectations" with its actual export performance, the IBRD projections for any country were combined into a limited number of "composite projections". We derived three composite projections for each country -- in Type One, the projected values of each projection was substituted for the unexpired part of any over-lapping preceding one as soon as the new projection was prepared; in effect, the old projection was revised during the projection period. In Type Two it was assumed that any prior projection would be carried on for two years from base irrespective of the existence of a subsequent projection for these years; in this way the original forecast was not altered

for two years because of unexpected changes. In Type Three it was assumed that any prior projection must remain in effect for at least 4 or 5 years before it could be superseded by values from the next projection. We then subtracted a country's actual export earnings from projected values for each type to derive a series of country-by-country, year-by-year "shortfalls" and "overages."

While this analysis was subject to some technical limitations, it brought out a number of interesting facts. To begin with, they showed that Bank forecasts have been much more accurate than might have been expected in view of the erratic nature of commodity markets and the many other variables involved. Not surprisingly, they also demonstrated that the more frequent the revision in the projections, the closer they came to being accurate forecasts of expectations or predictions and, therefore, the smaller the amount of the aggregate shortfalls experienced during medium and longer-run periods. Another noteworthy lesson was that substantial overages above expectations were also realized by the group of countries being examined, when taken as groups. Indeed, for the countries examined in our statistical study, which covered the period 1950-1963 and included seven years of persistent weakness in commodity markets, aggregate accumulated overages ranged between 8% and 30% in excess of shortfalls, depending upon the composite projection employed. Comparisons based upon five and seven-year periods, 1959-63 and 1957-63, produced similar results. These were, however, aggregate results. They indicated that while some developing countries were experiencing unexpected declines in export earnings, others were happily experiencing the opposite. However, it was assumed that the intent of UNCTAD resolution was that assistance to developing countries in difficulties from this special cause was to be obtained mostly or entirely from the developed countries, not from other developing countries. It was therefore assumed in preparing the scheme that the problems of each developing country were to be

considered separately and that the better than expected export receipts of some developing countries in any period were not available to offset the export difficulties of other developing countries. Generally speaking, it was necessary to contemplate a transfer of real resources from the industrialized countries to the developing countries having such difficulties. A sensible scheme could not be built on the expectation that the developing countries would finance among themselves the shortfalls experienced by some developing countries. With very few exceptions such countries experiencing "overages" would need to use them either to repay indebtedness or to save the increase for the nearly inevitable difficulties of the future. Therefore, under the proposed scheme one developing country's overages are not used to offset the shortfalls of others.

While the exercise described above provided instructive insights into the problems which gave rise to our Study, it could not be used to determine even roughly the magnitude of the financial resources that would be required to implement the proposed scheme since the countries in the sample varied greatly during the period shown. However, it was felt important that any judgment on magnitude or finances needed should be based on the best available historical evidence. For this purpose it was decided to extract from among all the countries for which composite projections were possible one or two samples in which the country composition would remain fixed, which would cover a maximum number of countries for a maximum time interval and which represented a relatively relevant period. Thus two samples were chosen, one consisting of 14 countries for the seven-year period 1957-1963 and another consisting of 18 countries for 1959-1963^{1/}. These samples were sufficiently large and representative to make extrapolation to global basis feasible, although due consideration had to be given to any bias resulting from the sample.

^{1/} Give countries in footnote.

In addition, in deriving an estimate for finances needed, account was given to how the scheme could work within any projection period and the existence of the compensatory financing facilities of the International Monetary Fund. The scheme provides not only that accumulated overages during a projection period be applied to any but that on overages experienced during the period after the shortfall be used to reimburse the scheme. Net debts at the end of the projection period would be converted into long term loans on terms similar to the development financing while net overages would not be carried forward into future projection periods to finance shortfalls. The aim was to avoid disincentives to improving export performance. The IMF compensatory financing facilities were also taken into account. When the quantitative evidence suggested by these by these samples was extrapolated by a global basis; each country's overages applied against its own shortfalls and recourse in all appropriate cases to the existing IMF compensatory financing facility, taking into account, the total of non-compensated shortfalls from medium-run projections, such as the proposed scheme calls for, ranged between \$900 million and \$1.5 billion per year for the period covered.

Since the scheme is regarded as the residual lender, there is no way to be certain of its needs. However, a number of factors suggest that something much less than \$900 million to \$1.5 billion would be adequate, taking into account other sources of international credit and where appropriate some use of monetary reserves, the consequences of improvement in projection techniques, the adjustment measures countries could take without retarding their development programs, the requirement that only countries fulfilling their understandings with the international agency would expect assistance from such scheme and better export performance on the part of the countries resulting from the pursuit of such policies.

The proposed scheme calls for resources of \$300 to \$400 million per year on an experimental basis for five years.

The findings of our study probably represent the closest possible measurement on the basis of historical experience, of the problem to which the UNCTAD resolution was addressed. They may be on the conservative side, since Bank forecasts of export earnings have been somewhat more cautious than projections upon which many development programs have been based; however, the projections under the scheme would have to be agreed with the international agency. Even so, the figures are large and they amply confirm the magnitude of the problem in statistical terms. They become doubly impressive, though hardly quantifiable when translated into such realities as shattered hopes, popular frustration and political, social and economic instability, which sometimes are more formidable obstacles to development than shortages of financial or material resources.

It is obvious that even the complete solution of the problem of coping with the undesired impact of unexpected export shortfalls would not overcome all the difficulties of development or relieve the governments of their responsibilities. They would, for example, still confront great barriers in raising the level of education, acquiring the technical experience obtaining the social behavior which development requires, establishing essential infrastructure and diversifying production in an orderly fashion. There would still be no escape from the consequences of domestic and foreign policies which, however appealing in the short run, tend to inhibit economic growth. And there would still remain the urgent problem of obtaining an adequate volume inflow of foreign capital on appropriate terms.

The very restatement of these fundamental problems, however, serves to emphasize the importance of the kind of mechanism we have proposed to deal with the more limited question of shortfalls in export earnings. The successful

operation of the scheme would depend, and in turn, generate, the kind and degree of international cooperation that would enhance the possibility of more sustained and effective action across the whole spectrum of development.

International cooperation is the key to the scheme not because of expediency but because of the fundamental nature of the problem. The problem arises out of developments outside of a country's controls, not because of misdeeds of other countries, but because of the operations of the market mechanism. On one hand, the developing countries profit from this market mechanism in many ways, the efficient working of this mechanism is generally desired and difficulties arising from it are fundamentally not the "fault" of the developed countries. On the other hand, the developed countries have a keen, vital and multi-varied interest in the success of development programs in the poorer countries. Therefore, the willingness to help prevent the disruptive effects on development arising from unexpected export short-falls is in their enlightened self-interest, but only if any assistance is effectively used for this purpose. Moreover, if not effectively used, such assistance could be counter-productive for the development process. There is no automatic mechanism to achieve this new relationship and it is essentially a matter of public policies in various countries. No one or two countries can solve the problem by themselves. If the disruptive effect of shortfalls is to be avoided, the international agency must be able to act promptly when the need arises and the country concerned must have confidence that it will do so. Such swift, certain and adequate action at the time of need would hardly be possible, however, if the agency had to determine after the fact whether the disruption could have been avoided if other policies had been pursued, whether the country had made full and effective use of other possible resources and whether its expectations of export earnings had been "reasonable." The scheme resolves these questions in advance except by having the kind of international agency-country understanding we have proposed and by providing for maintaining its effectiveness through review and consultation.

This procedure would require the closest working relationship between the country and the agency. However, there are already many examples of this. Many developing countries, for example, are accustomed to close working relationships with the World Bank, the IMF, and other regional and international agencies. Nevertheless, the scheme would require not only full cooperation but it would make good performance on economic policies related to development more significant and more a matter of mutual intensified understanding with consequent increased responsibilities for all involved. The scheme would also require close and continuing cooperation between the agency and other international institutions involved in development. Again, this would be nothing particularly new except in degree. Existing machinery of cooperation and coordination would have to be steadily improved, but the incentive for further improvement would be considerable because the successful functioning of the agency would be in the interest of all concerned. For example, an objective forecast of a country's export earnings within the context of an understanding on the development program as a whole, deals with matters that are relevant to both the provision and the use of external assistance. An accurate forecast would, of course, be in the interest of the developing country, since an overestimate would be likely to result in a reduction of regular foreign aid while an underestimate would reduce the assurance of help in case of a shortfall. It would be equally important, however, to countries that are called upon to provide assistance, since the function of development finance is to fill the gap between a country's actual earnings of foreign exchange and its needs to carry out a sound development program. Thus, the soundness of the program and the accuracy of the forecast are crucial to a determination of the need for assistance -- a primary concern of many aid agencies and of groups designed to coordinate assistance for individual countries. Therefore, the proposed scheme should facilitate the task of coordinating aid and making it more effective, and to the extent of its ability to do so, it should help elicit the cooperation required.

The scheme is concerned with only one part of whole process, but its appropriateness and feasibility will be judged both in itself and how it fits in with an effective approach to the overall problem of development. The scheme is based on the experience of many countries over decades; it is hoped that it has avoided the pitfalls of over-emphasizing theoretical aspects or ignoring what economic analyses and theories based on hard facts can teach us. What it does not try to do is to moralize or judge the political willingness of countries to enter into the arrangements envisaged under the scheme. It deals with an economic need and how to meet it.

HARVARD SEMINAR
FEBRUARY 28

1. The subject of the seminar is essentially the problem of supplementary finance, or how to meet a problem of uncertainty arising out of the international market mechanism.
2. State the UNCTAD resolution.
3. Historical investigation made to insure that the problem was a bonafide and major one -- something should be said as to the nature of the historical investigation.
4. Indicate what the various alternative approaches to the problem were:
 - (a) The possibility of overcoming uncertainty through international agreements with respect to quotas of production, sales and prices -- an approach which had been largely favored by the French at the UNCTAD Conference and was an extension of their experience based on their relations with their own former colonial areas, particularly in West Africa.
 - (b) The possibility of basing oneself on the market mechanism, but overcoming the undesirable features without at the same time interfering with the desirable adjustment processes which would normally take place through the market mechanism. Means avoiding the undesirable features which would come from various alternatives such as income supports for producers, techniques of subsidization to individuals, producers or exporters through the budget, exchange rate system, etc.
5. Therefore, the scheme attempts, on one hand, to use the market mechanism and, on the other hand, attempts to avoid a technique which would make it unnecessary for individuals or producing units within an economy to adjust themselves to changes in the economic situation abroad. In effect, it is a scheme directed at enabling the national economy to

maintain a program of relatively full use of available resources, internal and external within framework of governmental policies emphasizing increases in production and productivity, but at the same time not trying to insure incomes of individuals or avoiding desirable adjustments to external changes.

6. Having decided on this basic approach, it was then necessary to invent how to do it.

7. Summarize scheme. Outline the basic criteria that were used in the scheme, (as in the case of the speech made to the Trade and Development Board) with an explanation in each case as to why used and how applied. 1/

8. When dealing with choosing a definition of shortfall from a reasonable expectation, to consider what the Fund has done and why we did not use either the Fund technique or what might be considered an extension of the Fund technique. Might indicate how Fund scheme differs from the Bank, and how they could be married. 2/

1/ The charts or graphs would be used at the time of explaining the concept of reasonable expectations, shortfalls and how they are measured, and also the link with the Fund.

2/ In my own opinion, basic for marrying the schemes would be that both schemes would be based on performance and both schemes would be based on the idea that all assistance or foreign exchange that was necessary to maintain performance would be available for the country to meet external problems as long as performance was maintained. In essence, this means that both schemes would have to be non-automatic, and at the same time give full assurance to the country that if it was carrying on desired programs, it would not be upset by external developments. In both cases, the concept of what was accepted performance would have to be a matter of mutual agreement between the country and whatever international agency was administering the scheme. In both cases, there would have to be certainty that, when needed, the amounts would be available quickly without fail and in adequate amounts. The final judge in both cases of performance would have to be the international agency. The Fund scheme is fundamentally different not only because it deals with the shortrun problems, but also because it is virtually automatic, does not pretend to be "sufficient" and is not particularly addressed to the problem of uncertainty, but rather to the problem of shortfalls for recent historical trends.

9. When the criteria had been spelled out and the scheme sufficiently explained, it would be followed by a historical section of how this might have applied in a number of cases, including India, Pakistan, Colombia, Brazil, Mexico, etc.

Mr. Hoffman

February 23, 1966

Irving S. Friedman

Nigerian Consultative Group Meeting

I was pleased to learn from your memorandum of February 16 to Mr. Woods of the useful part played by the economic contributions and, more particularly, by the part played by Mr. Avramovic. My own experience has indicated that when you have a good economic team it virtually insures that the country's presentation, as well as your own, is going to be good. Moreover, having good preparation both in the country and in the Bank must make it much easier for the country to attract a good representative since he would not be worried about being well briefed. I know that some have favored bilateral talks before meetings. I can see the merit in it but shudder at the additional staff drain.

As for the size of the economic reports, as you point out we have talked about this and I have discussed it with the Economic Committee a number of times. Essentially, the size of the report depends on the head of mission and the amount of time he devotes to the report. It is a great deal more difficult and time consuming to write a shorter report. However, I do think we should aim at shorter reports and I have so informed the Economic Committee.

In any case, experience clearly indicates that what matters most is the ability of the person put in charge of the economic mission. For the economic work, for the consultative groups, and for other major countries, we will have to rely on our best people to head missions. These people must be prepared to speak for the Bank and therefore should be well grounded in Bank experience.

I have had much experience in the past with country delegations talking about not needing detailed reports, but paradoxically, have always found, virtually without exception, that it was the detailed report which had the most influence and was best received. The very persons who tend to make jokes about the size of a report are the ones who insist that they must have the details on which conclusions are based so that such details can be checked over by the country's experts.

The economic reports on the major developing countries which we produce now have, of course, a different audience from the past. Since the reports go to all of the interested UN agencies as well as OECD and are used by donor countries as a basis for their own aid programs, they have to embody sufficient supporting detail for the analysis to be self supporting. In general, what we are aiming for is a report which consists, first, of a Part I of a maximum of 20-25 pages to provide the analysis and conclusions needed by the policy makers. Secondly, this should be supported by the detailed annexes or appendices which the various experts in the different governments or agencies can use for their own work and to brief their principals further, if necessary.

As you may know we have in the last year also changed the Basic Data statement that prefaces the economic reports. The Basic Data now is designed to provide standard comparable statistics on the general outlines of the economy and on some of the indicators of its performance. This statement is now identical with that which we include in the semi-annual IDA Data policy book. There is still a great deal to be done to improve the content and comparability of these Basic Data, and the Economics Department is working on this, but I believe they already provide a useful framework within which a comparison can be made of most countries.

cc: Mr. Woods

Mr. Kamarck

February 23, 1966

Dear Mr. Szymczak,

I will be glad to serve on your reception committee. However, there is a possibility that I may be out of Washington on March 18 and 19.

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

Mr. Matt S. Szymczak
Director
Savings and Loan Forum
Georgetown University
3621 O Street, N. W.
Washington, D. C. 20007

February 23, 1966

Dear Mr. Lipsey,

Thank you very much for sending me a copy of the preliminary report on the International Price Comparison Study. I am sure it will be most useful. If the revised iron and steel indexes are to be available, I should appreciate receiving a copy.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. Robert E. Lipsey
NATIONAL BUREAU OF ECONOMIC RESEARCH INC.
261 Madison Avenue
New York, N. Y. 10016

m w }

Mr. George D. Woods

February 23, 1966

Irving S. Friedman

I think you would be interested in this note summarizing Mr. Hoffman's recent Cleveland speech. You will note that Mr. Hoffman calls for an increase in all of over \$6 billion a year in the capital countries by 1970. This figure is not really comparable with ours as we made an estimate of what the average per annual need might be for the next five years and came out with a figure of \$3 - \$4 billion a year. However, I would guess that the figures were computed very differently.

Attachment

Mr. Irving S. Friedman

February 23, 1966

Bimal Jalan

1. I thought that you might find the attached speech of Paul Hoffman's (delivered on 15 February 1966 in Cleveland) interesting.
2. Mr. Hoffman's speech is a plea for higher volumes of development aid to the developing countries. He suggests that all the industrialized countries, including the Soviet Union must appreciably increase their contributions to global development in their own economic self-interests. The explosive technological progress in advanced countries unmistakably points to the need for vast new markets if the industrialized nations are not to run the risk of slow suffocation from a glut of goods and services. The low-income countries are the most likely place for finding these markets -- the assistance of developed countries in increasing their income would in turn be of immense benefit to the donors themselves in the form of vastly increased exports and resulting employment benefits. The United Nations experience in the field of pre-investment activities suggests that the developing countries on their part can successfully meet the twin challenges that face them -- growth in ability to provide a decent standard of living, and growth in ability to contribute to an expanding world economy. The missing link is development capital which the advanced countries should help supplement.
3. Mr. Hoffman argues that of the current capital outflow of \$9.5 billion to developing countries, only \$4.8 billion represents a direct charge on the taxpayers -- specifically the \$1 billion made available in long-term low-interest or no-interest loans, \$500 million in technical and pre-investment assistance, and \$3.3 billion in other grants. The remaining \$4.7 billion - or almost exactly half - comes from private investments and from loans that meet strict banking criteria with normal interest rates. In order that the development curve may climb at the necessary rate, Mr. Hoffman suggests that the advanced countries by 1970 must double the volume of private investment and bankable loans and the present rate of soft-loans and pre-investment assistance. He, however, does not believe that one can realistically count on any sizeable increase in the level of grants-in-aid. Thus, in all, Mr. Hoffman calls for an increase of over \$6 billion a year in capital flows to the developing countries by 1970.

DRAFT
ISFRIEDMAN:hls
February 23, 1966

Insert Page 3 Paragraph 6

At present an industrial country in balance of payments difficulties is expected to take the necessary corrective measures to overcome its difficulties without damaging international prosperity, e.g. restrictive exchange controls on payments for trade and services. To do this, assistance is provided through the IMF and various swap arrangements between the U.S. and other industrial countries, etc. The new aspect in what is being suggested is that industrial countries in balance of payments difficulties will not be expected to take steps which are harmful to the development process in the poor countries but at the same time will be assisted in doing so by the other industrial countries experiencing balance of payments surpluses. Presumably the other industrial countries would wish to be assured that the industrial country in balance of payments difficulty is taking measures which they regard as appropriate to correct balance of payments deficit (so called multilateral surveillance) and that the assistance which they are rendering is being well used by the poor developing country. The advantage of IDA is the general confidence in the World Bank group that it is so managed as to ensure the productive use of IDA credits as well as World Bank loans. This is done by emphasis on both careful project work and on close scrutiny of a country's economic performance in policy as well as creditworthiness where appropriate. Thus Secretary Fowler's proposal can become the basis for international cooperation for which the mechanism is quite easy to envisage although its political acceptability might prove difficult to negotiate aimed at ensuring the

continuation of a good development program despite the balance of payments difficulties of individual industrial countries. A logic is found in the fact that the less developed countries in any case use up all the foreign aid somewhere in the industrial world but rather in the acceptance of the urgency of supporting good development programs. The mere fact that the surplus of an industrial country is the result of aid given to poorer developing countries is no reason by itself for plowing it back. The reason is to be found in the acceptance of the developing countries, particularly in individuals, to carry on a successful development program -- not in any kind of moral or ethical argument but in some way or other it is only just that such surpluses find their way back to poorer countries. These surpluses do represent good services produced by the industrial countries.

February 23, 1966

Dear Sidney,

I have just received your letter of February 17 and thank you for your kind comments on my presentation.

I have glanced at the proposed annotated Agenda and will get in touch with you as soon as I have had an opportunity to give it the attention it merits.

Yours sincerely,

Irving S. Friedman

Mr. Sidney Dell
United Nations Conference on Trade
and Development
New York Office of UNGTAD
United Nations
New York, N.Y.

P-1

February 23, 1966

Dear Mr. Szymczak,

I will be glad to serve on your reception committee. As far as I know now I will be in Washington on March 18 and 19.

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

Mr. Matt S. Szymczak
Director
Savings and Loan Forum
Georgetown University
3621 O Street NW
Washington, D.C. 20007

cc

Mr. Kamarck

February 23, 1966

Irving S. Friedman

Finland

Mr. Owen has raised with me the role of the Economic Committee on the market eligibility of Finland for loans. I have discussed this matter with Mr. Knapp and he would have no objections to the Economic Committee having a view on this if it has one.

What do you think we ought to do next?

cc: Mr. Owen

Feb. 23, 1966

Mr. Kamarck

800

Is he good enough for Gordon's mission?
He doesn't seem so, at least not as
Gordon's deputy.

February 23, 1966

Dear Andy:

What would you suggest that I
reply to this?

Irving S. Friedman

misc

February 23, 1966

Dear Mr. Fogg:

Thank you for your interesting letter of February 8. I recollect with pleasure our conversation in December and am glad to have your thoughts.

I am taking the liberty of circulating your letter to some of my colleagues and will be writing to you again when we have had a chance to give it more thought.

Yours sincerely,

Irving S. Friedman

Mr. C. Davis Fogg
Corning Glass Works
Corning
New York, 14830

(Kept by Gunter)

February 21, 1966

Mr. John Gunter:

I would appreciate very much if you could read this over quickly before you go. I am giving a seminar up at Harvard this weekend on our Scheme -- I don't intend to speak about the Fund's new scheme but still I should have a correct understanding of it to keep in mind. Thanks very much.

~~(Jalan's memo A Reconsideration of the IMF Scheme)~~

Mr. Lejeune

February 21, 1966

Irving S. Friedman

Mr. K. Haseeb

I would be very happy to add a Middle Eastern economist to my group. Obviously Mr. Haseeb has had interesting experience, however, in checking with the Fund people who have had business relations with him, I gather that he makes a generally favorable impression, but despite his position did not have much to say in the discussions with the Fund.

I would therefore want at least the possibility of a personal interview with him before committing myself.

cc: Mr. Knapp

CN-3

Mr. Orvis Schmidt, Mr. Nespoulos Neville

February 21, 1966

Irving S. Friedman

Letter from Erwin Schuller

I should have circulated this letter earlier but nothing has been done on it as yet. However, I have acknowledged it orally to Mr. Schuller and I would appreciate having your reactions.

February 21, 1966

Mr. Siglienti:

I tried to phone and found that you were away. I have canvassed around our people and it seems that there isn't a spot for Mr. Saba.

Mr. C. F. Owen

February 23, 1966

Irving S. Friedman

Attendance at Economic Committee Meetings

I would like to continue the practice of having members of "my group" attend the Economic Committee meetings. However, when the attendants are administrative only, they should be informed that we are having an executive session. This should apply to any others who attend the meeting who are not members of the Committee and whose presence at an executive session has not been cleared with Mr. Kamarck or myself.

Mr. Antonio J. Macone

February 23, 1966

Irving S. Friedman

Supplementary Financial Measures

Can you give me a little note or perhaps telephone me how we used the figure \$900 million to \$1.5 billion in Annex 4 of the Study on Supplementary Finance while the main text used the average of \$1.2 billion.

Mr. Owen

February 18, 1966

Irving S. Friedman

Defense Expenditure and GNP

This document should not be distributed to Area Departments unless other Departments agree with it.

From every point of view it would be better if it shows "Europe and Middle East Department, in consultation with other departments".

Mr. Woods

February 18, 1966

Irving S. Friedman

Major Trends in Development Finance in 1965

I had this done originally as a background for your ECOSOC speech, but after reading the first draft decided not to put it up on that basis. However, I think you will find it interesting to read.

Mr. Owen

February 18, 1966

Irving S. Friedman

Major Trends in Development Finance in 1965 - (Preliminary)

Would you please arrange the distribution of the attached document to the Economic Committee, wording the covering memorandum as follows:

"The Chairman of the Economic Committee thought that the attached survey, prepared by Mr. Kochav, would be of interest".

Attachment

Mr. Andrew M. Kamarck

February 18, 1966

Irving S. Friedman

Capital Markets

I have been meaning to speak about our participation in the OECD discussions on Capital Markets. I have also mentioned this to Mr. Hulley who may be speaking to you about it.

I would appreciate it if you would try to remember to speak to me about it.

February 18, 1966

Dear Professor Shulman,

I tried to telephone you the other day but you were out. I would like to express apologies for my unintended rudeness on Monday. As you would not have known I had an excruciating headache all during the meeting and had to catch the 8 o'clock plane back to Washington. Nevertheless this is only given by way of explanation.

I do hope we will have a chance to meet again soon and exchange thoughts on many things of common interest.

Yours sincerely,

Irving S. Friedman

Professor Marshall D. Shulman
Fletcher School of Law and Diplomacy
Harvard University
Cambridge
Massachusetts 02138

February 18, 1966

My dear Gottfried,

Thank you for your letter of February 15.
I have also just received the President's
invitation for the Dana-Palmer House from
Saturday February 26 through Tuesday March 1,
1966. My wife and I are delighted to accept.

Sincerely,

Irving S. Friedman

Dr. Gottfried Haberler
Harvard University
326 Littauer Center
Cambridge
Massachusetts 02138

February 18, 1966

Dear Mr. Johnson:

With your indulgence, I shall reply to your letters of February 2, and February 7, 1966, under single cover.

Referring to the earlier letter, in which you have indicated the availability of your firm's services for consultation, I am asking the Engineer Adviser of our Projects Department to communicate directly with you, furnishing you with information and means, which will enable you to establish with us a formal record of your capabilities and experience.

As to the publication of your book, "The Saga of Corn," I regret to inform you that the International Bank for Reconstruction and Development has not undertaken to sponsor such projects, and it is not likely that its responsibilities will be extended in that direction. Perhaps some agency, such as Food and Agriculture Organization of the United Nations or a private publishing company might be interested in doing this.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. Stephen K. Johnson
S-J. Associates
P.O. Box 3046
Accra, Ghana

HDVogel/ISF/mlr

Mr. Graves

February 17, 1966

Irving S. Friedman

ECOSOC Speech

Thanks for your note. I had already given my further comments to Mr. Woods but perhaps the redraft takes care of it.

February 16, 1966

Mr. Woods:

I am attaching my additional
comments on Mr. McKitterick's speech.
They deal especially with pages 12
to 15.

Irving S. Friedman

February 15, 1966

My dear Gottfried,

Thank you for your letter of February 8. I'll be glad to reserve time for lunch on the 28th and look forward to it. The people you have invited sound fine to me.

Thank you also for the Guest House invitation and for being concerned with our comfort. I haven't heard from the Dean as yet but presumably will. My wife and I will be flying from Washington Friday afternoon. I will let you know where we are staying when we are certain.

Looking forward to seeing you soon.

Sincerely yours,

(signed) Irving S. Friedman

Irving S. Friedman

Dr. Gottfried Haberler
Harvard University
326 Littauer Center
Cambridge, Massachusetts

IrvingS.Friedman:lr

February 14, 1966

Dear Mr. Chandavarkar,

I was glad to receive your letter of February 2. We would be happy to consider your application for a position in the Bank. We are doing all sorts of interesting and challenging things, from operational economics to basic research.

I have an understanding with the Fund that I will not try to compete for their people. If, however, you are not given a satisfactory offer by the Fund I would be happy if you would write to me again and we would be glad to consider you for possible permanent employment in the Bank.

Sincerely yours,

(signed) Irving S. Friedman

Irving S. Friedman
The Economic Adviser to the President

Mr. A. G. Chandavarkar
Office of the Governor
Bank of Libya
Tripoli, Libya

I.S.Friedman:lr

Mr. Kamarck

February 14, 1966

Irving S. Friedman

Improvement of Writing of Economic Reports

Please do not go ahead with this before we have a chance to discuss it. I don't think I agree with the suggestion but would be happy to discuss it.

Mr. Kamarck

February 14, 1966

Irving S. Friedman

Bank and Fund Statistics

I believe that Ben King's suggestion of February 9 on
Bank/Fund statistics is a good one.

Mr. Owen

February 11, 1966

Irving S. Friedman

Statement to UNCTAD Board

Would you please arrange with the Secretary's Department to circulate copies of my remarks made to the UNCTAD Board on February 7 to the Executive Directors for information.

NOT USED

Mr. Joseph C. Reamy

February 11, 1966

Irving S. Friedman

Mr. Jalan's Expense Account

Mr. Jalan journeyed to Geneva at my request to assist Mr. Sarma for part of the UN Committee on Commodities meeting. Although his original travel request did not list Geneva this travel was on official business.

FEB 10 1966

Dear Dr. Sen,

Thank you for your letter of February 2, 1966 outlining your proposal for a study of financing of Integral Agrarian Reform based on the report and recommendations of the Inter-Agency Working Group which met in Santiago, Chile, last year.

I am circulating your proposal for consideration by senior officials most directly concerned with this problem in the Bank, and shall communicate our views to you in the near future.

Yours sincerely,

(Signed) George D. Woods

George D. Woods

Dr. B. R. Sen
Food and Agriculture Organization
of the United Nations
Rome, Italy

I.S. Friedman:mlr
February 9, 1966

February 10, 1966

The Manager
Schweitzerhoff Hotel
Basle
Switzerland.

Dear Sir,

It would be very much appreciated if you could send to me a copy of Mr. Friedman's hotel bill - he stayed at your hotel from December 11 through December 14, 1965. Mr. Friedman has mislaid the bill and we do need it for auditing purposes.

Thank you very much.

Yours sincerely,

Daphne McGregor
(Secretary to Mr. Friedman)

Mr. George D. Woods

February 9, 1966

Irving S. Friedman

Figures supplied to Mr. Paul Hoffman

As you suggested Mr. Paul Hoffman has been in touch with me about some figures on foreign aid and capital flows, particularly those in your Foreign Affairs article.

I explained to him how we had derived the \$6 billion figure used in the article - it was only coincidentally about the same figure as that used elsewhere for net official external aid. Actually the \$6 billion was a figure we had developed ourselves to try to give more precision to how much resources were being transferred from the developed to the less developed world. It takes into consideration not only repayments on capital, which is normally shown, but also interest, dividends and profits payments. Our rough estimates were about \$9.5 billion of net flows of financial resources to the developing countries, minus about \$3.5 billion for payments of interest, dividends and profits.

At his request we also gave Mr. Hoffman the following rough estimate of the breakdown by "softness" of the \$9.5 billion as follows:

Private capital investment	\$2.5 billion
Official loans on relatively hard terms (roughly up to 20 years of maturity and at market rates of interest)	\$2.2 "
Official soft loans (at terms more concessionary than the above)	\$1.0 "
Grants and grant-like contributions	\$3.8 "

I gather that Mr. Hoffman is very skeptical about the grant figure, saying that it even includes "resources" like military equipment. The main theme of his forthcoming Sunday New York Times article is the need for more soft money and a large increase in pre-investment studies, say up to about \$500 million. I believe that he is also going to be calling for a doubling in the foreign aid programs.

ISFriedman/dm

Mr. J. Burke Knapp

February 8, 1966

Irving S. Friedman

Economic Committee

I am attaching a memorandum prepared by Mr. Owen, Secretary of the Economic Committee. I don't know why it is marked "urgent" but there it is.

In any case we might include it among the other things we wanted to talk about.

Attachment

(Owen's memo February 7, 1966 - Side-stepping the Economic Committee)

ISF:dm

Final - Retyped 2/7/66

IBRD Study on Supplementary Financial Measures

Remarks by

Irving S. Friedman

at

U.N. Trade and Development Board

New York

February 7, 1966

Bank Study on Supplementary Financial Measures

Mr. President and Members of the Board:

I have been invited to come and present some thoughts on the Bank's Study on Supplementary Financial Measures. May I begin by expressing my appreciation for having been given this opportunity to explain further the Study and proposed scheme to which a number of us have devoted considerable time and effort. My role in the World Bank is that of an economist and advisor on economic and financial policies. It is in that capacity that I would like to share some thoughts with you.

The Bank Study was done in response to the request from the U.N. Conference on Trade and Development and we have looked to the resolution requesting the Study for our basic terms of reference. I shall not burden you now with a detailed exposition of the scheme or the Study, for they are before you in our Study which was submitted last December 6 to the Secretary-General of the United Nations by Mr. George D. Woods, President of the World Bank. Rather, I should like to direct my remarks to some of the broader questions which in my judgment lend particular relevance to the Study, in the context of the development task as a whole. From many points of view, however, our Study and its proposals are an outgrowth of the regular work and experience of the Bank which covers all aspects of the development process. We are dealing here with a major, but only one aspect of the overwhelmingly important problem of development. The fact that we are dealing with only one slice of the whole pie doesn't make it less important; great and complicated problems are often best solved piecemeal. Moreover, concentrating on a segment may throw new light on the whole and suggest new approaches and solutions to the over-all problems. However, we cannot forget that the central preoccupation is with the entire development process as such and a proposal on a segment must fit in with a rational approach to the over-all problem.

The world clearly recognizes the importance of development, as is evidenced most immediately by the presence of you gentlemen here on the U.N. Trade and Development Board. There are many great issues involved in this field of development and many relatively unknown areas which need further exploration and enlightenment. Indeed it is difficult to talk or consider one aspect of this problem without keeping in mind the thinking and suggestions which are being made on other aspects. However complicated the discussions and however varied the suggestions, there is a common thread that weaves through all -- what can be done to deal with this baffling problem in a more effective way than hitherto.

In presenting the Bank Study we were well aware of the discussions in other related fields. Indeed the Bank itself has been engaged in inquiring further into many different aspects of the problem of development and its financing. However, in our Study, now before you, we did try to address ourselves to the specific problem which had been given to us and, with your permission I will confine my remarks to it, hopefully, without losing sight of the broader framework of the entire problem of development.

For nearly two decades the poorer countries of the world have been urged to approach their task of development in a rational and determined way. We have come to use the words "planning" or "programming" to cover this rational and determined way even though they include many different kinds of economies and economic policies with great differences in the role of governments in the economic life of the nation. For many, acceptance of the role of planning or programming was slow and difficult. Paper plans could quickly be drawn up; but, as a rational and continuous mechanism for managing an economy in order to reach certain stated goals, the process of planning has proved a tough and demanding discipline. It has required vision, resolution, sacrifice and resistance to internal political and social pressures.

As the discussions at UNCTAD vividly demonstrated, however, no effort on the part of developing countries, however steadfast, could by itself assure the success of its efforts. We all have seen how vulnerable a development program can be to unpredictable changes in the external environment beyond the control of the poorer countries themselves.

It was hardly surprising, therefore, that the disruption of development programs resulting from unpredictable adverse movements in the export receipts of developing countries -- movements which are either too prolonged or too drastic to be dealt with by available short-term balance of payments support -- should have been a matter of urgent concern two years ago in Geneva. The problem has been a persistent, nagging cause of perplexity for nearly two decades, as the world community has groped its way toward the slow perfection of developmental machinery. We have all been aware that the developing countries, and most especially the large majority whose earnings of foreign exchange come almost entirely from the export of agricultural commodities, are highly vulnerable to unforeseen declines in commodity prices and that their ability to finance development is sharply limited by the sluggishness which typifies the growth of demand for such products. This dual problem has been with us for decades constantly. At different times and in different ways, efforts have been made to cope with various aspects of it, but the problem remained and the UNCTAD responded in the resolutions well known to you.

To the leaders of many less developed countries, the problem appears to be a vicious circle. To escape from reliance upon highly volatile prices of one or a few commodities, they must look to the diversification of production and exports. This, like all early development, depends on the execution of an investment program for infrastructure and productive facilities which requires a wide range of goods and services that must be imported and paid for in foreign exchange. As the program gathers momentum, it speeds the pace of urbanization, creates the need for more capital goods and creates new consumer demands which

must be met, at least in part, for they represent the newly aroused hopes of the people and are in themselves an important ingredient in the dynamics of development. But they cannot -- and I believe should not -- be wholly satisfied through domestic production and therefore raise still further the requirement for imports. Thus the need for a relatively large, constantly increasing and reasonably reliable supply of foreign exchange is critical. Less developed countries, however, are usually not greatly endowed with foreign assets or reserves upon which they can draw for such purposes, or, in any case, such resources are depleted in rather short time since the external position of such countries does not usually produce enduring surpluses necessary to replenish such resources. If their programs and policies appear to be sound and prospects seem favorable, a certain amount of foreign exchange can usually be obtained in the form of official assistance and private investment from abroad. In the best of circumstances, however, by far the greater share must come from their own export earnings; in 1962, for example, which was a year of low commodity prices, export receipts of the developing countries were still more than three and a half times the net inflow of official aid and private investment. So their major reliance for obtaining the needed foreign exchange must be on sales in foreign markets.

The advantages of markets are well known, but they do involve uncertainty in prices and volume of trade. For all countries these uncertainties are welcome only when there are unexpected gains, but for the poorer countries, however sensible their domestic policies might be, the unexpected declines may mean widespread hardship and setbacks, if not catastrophies.

The problem arises immediately from the unexpected decline in export earnings, but more profoundly, the problem arises in inadequate economic development and the consequences of poverty. When countries are able to save enough to meet major unexpected setbacks, schemes like the one prepared by the World Bank will no longer be necessary. Unfortunately, these conditions

for many countries can be achieved only in the distant future. At present, the alternatives are basically to rely upon the countries experiencing the unexpected export shortfalls to absorb most, if not all of the effects, irrespective of the retarding impact on the development process, or to provide from abroad some form of additional foreign exchange in sufficient time to substitute in whole or in part for the foreign exchange not earned because of the unexpected decline. The World Bank proposal is to provide enough substitute foreign exchange from external sources to enable a good and previously agreed development program to be carried on without disruption, as long as the country in difficulty is following economic policies which are objectively regarded as appropriate by the international community.

Thus we were not concerned in our Study with the effect of predictable declines in export earnings, whether they result from temporary and reversible causes or from long-term shifts in the trend of demand or supply. Our assignment was to study the problem of disruption of development programs caused by unpredictable shortfalls from reasonable expectations of export earnings. Our findings after much new research and enquiry, led us to the conclusion that the problem is both real and important. To help reach a conclusion on this critical question, we drew on the rich experience of the World Bank. We did not proceed to consider how the problem might be met until the facts convinced us that there was a major problem.

When prices fall abruptly and sharply or when they continue to decline over a long period, and if these setbacks are not foreseen and taken into account when the country plans its investment program, the results are likely to be serious for development. Ironically, they can be most serious for those very countries which have been conscientious in planning and effective in executing their development programs. An effective development program is relatively complex and its various segments are intimately interrelated.

For many countries, the development program cannot leave margins of safety represented by policies designed to accumulate foreign exchange reserves indefinitely or deliberate unemployment or underemployment of domestic resources which may quickly increase domestic output for export or for domestic consumption when export earnings fall unexpectedly. Sensible development programs avoid the dangers of inflation and economic strains on domestic resources and the balance of payments, but, on the other hand, short of this, they try to bring about the best and full use of available resources in the private and public sectors. The keystone almost invariably must be an estimate of export earnings, since as noted before, they are the major source of foreign exchange upon which the whole structure chiefly depends. Once a program has been designed around such a forecast and set in motion, an unexpected shortfall that cannot be offset in time can have far reaching consequences, upsetting the pattern of investment, frustrating the hopes of the people and limiting the effective use of all remaining resources, both external and domestic. In such circumstances, the government may be forced to adopt restrictive measures which further choke off the breath of development, resulting not only in retarding the rate of growth, but also in introducing distortions into the economy which may burden growth for many years, with such undesirable by-products as chronic reliance on high levels of protection or continuous need for large scale governmental subsidization.

Consequently, the disruptive effects of such events are far broader and more pervasive than the country's economic progress; and it encompasses the entire society and their repercussions are felt throughout the social structure of a country. If not dealt with successfully, they produce broadening waves of disillusionment which may discredit the development program and its advocates and which may well affect the action of other developing countries.

The scheme devised by the World Bank to deal with the problem depends for success upon a range and degree of international cooperation which, if forthcoming, undoubtedly would have beneficial consequences far beyond the limits of the problem itself. The basic criteria underlying our proposal can be stated briefly: (1) Shortfalls in export earnings must be measured against objective estimates; (2) They must be of a nature or duration which could not adequately be dealt with by available short-term balance of payments support; (3) They must result from causes beyond the control of the affected country; (4) External assistance cannot be expected unless there is certainty that it is needed for development and will be used for that purpose and therefore such assistance will require some form of administration; (5) The administering agency will be international because of the role which the agency is expected to play vis-a-vis the donor and the recipient countries; (6) Before turning to the administering agency for relief, the country must make whatever adjustments it can to offset the shortfall without disrupting its development program and it must make all reasonable use of other available sources of finance, including any earnings which it may have had previously during the projection period in excess of the agreed export projection -- what we call "overages"; (7) When a shortfall occurs which cannot be offset by other means, assistance must be timely and certain; (8) Any scheme must reconcile effectively the need for administration with the need for timeliness and certainty when the difficulties arise; (9) The terms and conditions of assistance should be similar to that on which the country receives normal development finance.

To meet these criteria our scheme requires that the steps necessary to make the scheme effective for each country must be worked out and agreed upon in advance. This is a process that would require the closest working relationship between the administering agency and the individual country. It would also depend upon close and continuing cooperation between the agency and other

international financial institutions involved -- the World Bank, the IMF and the many other national and international agencies, formal and informal, that are concerned with the provision of technical assistance and financial aid to the less developed countries.

The scope of such cooperation is suggested by the various elements in the agency-country understanding, which is the heart of the scheme we propose. The first requirement would be a mutually agreed projection of "reasonable expectations" of export earnings over a period of years, normally corresponding to the span of the country's development program which is usually about five years. This projection would be arrived at in the context of an understanding of the program as a whole and would be subject to revision only as part of a general reshaping of the program. World Bank experience indicates that such projections are practical and feasible; we are doing it now.

The country and the agency would have to agree upon a set of basic development policies to be pursued by the country during the period covered by the projection of export earnings -- a "policy package", as we have called it in our Study to cover what we have called the "projection period", which is similar to what in many countries would be called the "plan period". This would include a financing plan and a projection of the balance of payments. The financing plan would cover investment in the public sector and the best estimates possible of private investment, stating the levels of anticipated investment in principal sectors and estimates of domestic and external sources of financing. The balance of payments projection would include estimates of the principal components of exports, imports, use of reserves and the various categories of external financing. The financing plan and balance of payments projection would "quantify" the underlying policy understandings and would be essential in assessing performance under the scheme. Again, experience indicates that this is practical and feasible.

In working out such a policy package, full collaboration would be required with existing international agencies, including the World Bank and the IMF, so that the financing plan would be consistent with financial policy targets and criteria agreed upon between the country and the international financing agencies. The need for such collaboration would continue throughout the course of the agreement, for both the projection of export earnings and the policy package would be subject to regular review and, if necessary, to revision.

The agency and the country would also have to agree upon steps to be taken by the government in order to adjust to a possible shortfall in its export earnings without disrupting its development program. First, any excess of export earnings above the agreed projection experienced earlier in the projection period would be applied against the shortfall. Further steps might include appropriate use of the country's own reserves and resort to the IMF if appropriate.

In addition, the agency would survey and keep under review with the government of the country and with other agencies the possibilities of using other sources of funds for offsetting shortfalls if they occurred. A number of these possibilities are mentioned in our Study and others might appear if effective use of such emergency assistance were assured. After taking into account such other sources of assistance, the scheme would provide with certainty and in time additional foreign exchange if needed to carry on the agreed development plan. This is new, but it is based on related experience and we think it is practical and feasible.

As far as the developing countries themselves are concerned, the level of cooperation with the agency which would be required to assure entitlement to benefits under the scheme would constitute an innovation only in degree. Many developing countries are practicing the kind of cooperation required to reach and maintain such understandings. This is a part of their regular relationships with a number of worldwide and regional international agencies. However, I realize that the scheme would impose upon them a heavier burden of accountability

for performance than many have been accustomed to in the past. I see no way out of this if the assistance provided by the scheme is to be made available with certainty and in time, and still fulfill the objective of ensuring that the resources of the scheme will be used to maintain a development program deemed worthy of support by the international community.

While we are concentrating our attention this afternoon on the World Bank's proposal on supplementary finance, I must reiterate that we cannot forget the obvious fact that it deals with only part of the development problem, whether seen from the viewpoint of the developing country or from the viewpoint of the donor or creditor countries. In designing our scheme, we have tried to make it fit into the larger whole. Thus, much of what is done for the implementation of the scheme such as the so-called policy package and export projections may well become part of the broader process of providing development finance. There are already many instances of this. If so, the inclusion of such provisions in a scheme for providing supplementary finance to deal with unexpected export shortfalls, will not add responsibilities in the field of performance, but rather help ensure that these responsibilities were not assumed in vain because of failure to deal with the unexpected.

I believe that the scheme would provide both an incentive and a focus for international cooperation on a new and more fruitful scale. Since the scheme would provide international assurance of performance on the part of developing countries prepared to meet its criteria, it should allay fears that funds provided for assistance will be dissipated because of poor performance. To that extent, it should improve the international atmosphere in which the problems of development are approached. Since the development programs of participating members and the policies for their execution would be the subject of agreement with the agency, the scheme would provide a framework within which the international community could more readily judge the requirements for external

assistance of all types. This would be of immediate interest to many agencies, such as the World Bank, that are concerned with the complex problems of providing or coordinating development aid. For example, the scheme's requirement for an objective estimate of export earnings would be of vital concern to all countries and agencies that are involved in providing assistance; indeed, it is important for the operations of the scheme that this export projection would be used not only to help determine the amount of possible assistance under the scheme but also the amount of normal development finance required by the country. Since the scheme requires a continuing review of the participating member's program, policies and prospects in collaboration with other agencies, it will help provide a reliable basis for the regular review of requirements for assistance.

There is no doubt that countries which fail to give a high priority to development in their public policies and actions, may not qualify for assistance under the scheme. This is deliberate, for the objective of the scheme is to assist the development process.

The basic approach is international, not unilateral. The techniques suggested are based on actual experience all over the world. The scheme does not set up theoretical or absolute standards. It deals with each country separately within a general approach. It leaves much for the administering agency. However, the general instructions to the agency are meant to be clear -- your (meaning the agency) job is to prevent the disruption of development due to these special circumstances by being prepared to provide timely financial assistance as the lender of last resort, and to so organize your relations with countries as to ensure that the assistance will be used effectively to carry on a development program or policies. We are not trying to avoid the inevitable adjustments to changing export conditions, but to ensure that the process of adjustment enables countries devoted to development to carry on this vital work.

I have not yet spoken of how much the scheme would cost. Our Study tries to make clear how we came to the estimate of a need of an additional \$300 to \$400 million per year, on the assumption that it would be supplementary to and not a substitute for already existing forms of aid. These estimates, as other similar estimates made by the World Bank, are made without any effort to inject political judgments as to the readiness of the international community to contribute the necessary funds. They are based on the best available experience and facts.

If the scheme suggested in our Study achieves international acceptance, the next step will be to consider in detail ways and means of providing the necessary financing and, more precisely, how such a scheme should be administered.

I hope that my brief remarks today will help in your further deliberations on our Study and the scheme proposed therein. I hope I have succeeded in avoiding either the role of the teacher or the advocate. For me to try to lecture you in development would be egotistical and pompous; for me to try to persuade you of one approach to a highly complicated and troublesome problem would be presumptuous and unfitting. We have done our best in our Study to tell you how we analyzed the problem, what facts we used, how we weighed the facts, what assumptions we made, and how we derived our conclusions. The document is lengthy and, at times, rather technical in language and exposition.

As for the length, I can only say that our first drafts ran into many hundreds of pages and the final version is relatively brief. Already fellow economists are eager to learn more. (We know that nothing will really satisfy their hunger, for they all (including myself) live by the French proverb -- "L'appetit vient de manger" - the appetite comes from eating!) As for the technical parts, they are given in the hope that they will help in achieving an objective, dispassionate and careful consideration of the major problem which is the subject of our Study.

Believing, as I do, in first things first, I hope that the world will first decide whether they agree there is a problem, what its magnitude is, and whether the Bank scheme makes sense technically and economically as an attack on this problem. We have made our small contribution; the next step -- the big one -- is yours to make.

Thank you.

My dear Mr. President,

I am honored and pleased to accept your invitation to express some of my personal views on the United States foreign aid program. I would like to say at the outset how much I have appreciated the close cooperation which has existed between the officials of your Administration and myself. We in the World Bank Group have received constant encouragement in our efforts from the strong support given by the United States. The United States is, as you are well aware, the largest stockholder of the Bank and the largest contributor to the International Development Association and without its continuous and firm support we could not hope to carry on successfully.

With your permission I would like to express my views on the United States program in the form of commenting on that part of your Message to the Congress of February 1 dealing with the Foreign Aid program on which World Bank experience may be helpful.

I heartily endorse the emphasis placed in your Message on the need for countries to place primary reliance on their own efforts and resources. Our work of the World Bank Group is based on this principle. We have discussed the ways and means of implementing this principle with a number of your AID officials, particularly Mr. David Bell. It is reflected in the decisions we take in our daily operations with respect to loans and credits to individual member countries. Our decisions are based not only on a careful appraisal of a particular project but also on a thorough-going review of the borrowers' economy and appropriateness of its economic policies and a judgment on its creditworthiness. Our emphasis on performance is also reflected in the efforts we are making to set up consultative groups for countries where a number of creditors provide development assistance and the World Bank will provide such creditors with judgments on a country's economic performance from the viewpoint of development as well as judgments on available productive investment possibilities. Our recent submission to the United Nations suggesting supplementary financial measures to avoid disruption

of development programs because of unexpected declines in export earnings suggests that any mechanism for such assistance be limited to countries which are prepared to undertake to follow economic policies designed to achieve the objectives of economic development. Believing, as you say in your Message, that it is necessary to go to the root causes of misery and unrest and build a firm foundation for progress, security and peace, we are convinced that only by insisting that development finance be given exclusively to those countries prepared to make effective use of it, can we make a significant contribution to the solution of these problems. I can only applaud your forthright statement that "nothing can replace resources wasted in political or military adventures" and have not hesitated to state the same conviction in public utterances.

I noted with great interest the emphasis you have placed on the need for improving food production. An increasing and large proportion of the new projects which we are now appraising in the World Bank Group are in the field of agriculture. In your remarks at the ceremony for the establishment of the Harry S Truman Center for the Advancement of Peace you said that you were calling for an international effort, including the support of institutions like the World Bank, to expand the world supply of fertilizer. I am sure that you are aware of our response to your call. I am hopeful that we can make an important contribution in this field by bringing together not only the energies and knowledge of the governments involved, but also the energies and ~~resources~~ ^{knowledge} of dedicated and experienced men in private life and encourage private institutions to provide part of the financing necessary to increase substantially the supply of fertilizers. The approach summarized in your Message, with its emphasis on increasing output and productivity through the provision of both technical assistance and financing, accords with the World Bank experience in this field. I was also most interested in your plans to increase AID education activities. We in the World Bank have also been increasing our activities in this field but

have specialized in the installation of facilities for technical training closely related to development needs. I feel there is need for a large increase in all kinds of educational facilities, but we have thought it appropriate for us to limit ourselves to that which is essential for development and that which others are not likely to do.

I was particularly glad to read of your readiness to help developing countries deal with the population problem. We are not experts in this field, but we have seen how unrestrained population growth has repeatedly frustrated strenuous efforts to achieve higher living standards and increased output.

The World Bank Group has supported various efforts to improve regional cooperation in economic development. In relation to our cousin institutions, the Inter-American Bank, the African Development Bank, and the proposed Asian Development Bank, ~~in addition~~ we have tried to give them the benefit of our own experience and perhaps more could be done to avoid unnecessary duplication of effort by close and friendly cooperation.

I was heartened to read of your proposal that the United States increase its contributions to multilateral lending institutions, particularly the International Development Association. I am convinced that because of the rising indebtedness problem an increasing proportion of development finance will have to be on concessional terms. I understand your concern that any increase in contributions to IDA be consistent with the U.S. balance of payments position. I am sure it is of interest to you that until now the operations of the International Development Association have been only a small annual burden on the U.S. balance of payments. In the past, a smaller proportion of IDA procurement has been made in the United States as compared with procurement under World Bank loans. In the future I expect that an increasing proportion of the procurement under IDA credits will come from the United States, more like the proportion under World Bank loans. In any case any commitment to increase the resources

of the IDA need not result in any U.S. appropriation until fiscal 1969 and the substantial use of such funds by actual disbursements for procurement would come even later. Thus the balance of payments impact of an increased commitment given in the foreseeable future would not be felt for a considerable number of years. Moreover, if the operations of the World Bank are considered together with the operations of the IDA, then the World Bank Group, taken together, has made a significant positive contribution to the U.S. balance of payments and we can so manage our affairs that we will continue to do so for a number of years. My staff and I have had the opportunity to exchange facts and views with members of your Administration on these matters and I believe that you will find that your financial experts agree with this conclusion.

May I thank you for the kind words of confidence expressed in the multilateral method of development finance and in the soundness of the multilateral institutions. I can assure you that we will continue to do all that we can to merit a good reputation. I am glad to learn of the proposal to increase contributions to the U.N. Development Program. I have worked closely with my old friend Paul Hoffman in his Herculean efforts and there is close cooperation between his institution and mine. He has undertaken a very worthwhile but tough assignment, and I would like to add my voice to others urging full support of his efforts.

I was glad to read the emphasis placed in your Message on encouraging private initiative and enterprise in developing countries. My own background in private finance convinces me that much more can be done along these lines. We are trying to make a contribution to this end in all of the work of the World Bank Group and as you know, we have a special arm for this purpose, namely, the International Finance Corporation. An example of our efforts along these lines is the convention on the Settlement of International Disputes between States and nationals of other States. Recently we have submitted it to our member governments and I am happy to report that there are now 33 signatories

to this Convention, including both developed and developing countries. The Convention will come into force after signature and ratification by 20 States. We are also far advanced in preparing comments on a proposal for multilateral investment insurance submitted to us by the OECD.

Finally I would like to comment on your request for five-year authorization for your economic aid programs. As in other aspects of your Message this again exemplifies the closeness of our views both on the diagnosis of the problems of development and on the means to tackle them. Last July, when addressing the Ministerial Meeting of the Development Assistance Committee in Paris, I suggested that desirability of a new perspective on the part of donor countries and, if I urged the donor countries to take a long-term view, agreeing for planning purposes on assistance targets over perhaps a three- or five-year period, for at least those developing countries which are recipients of major amounts of aid. These targets should, of course, not be firm or irrevocable commitments. Not only would they be subject, on the part of the donors, to yearly legislative appropriation, but the availability of the amounts projected would in every case depend upon convincing demonstration, in annual reviews, that the recipient country's economic performance had been satisfactory.

I regard it as part of my responsibility to find out what are the real needs and practical potentialities of the developing countries and also to find out what can be done to meet them. I myself am convinced that much larger amounts of development finance than is now available could be used effectively for productive investment purposes by the developing countries and that in many cases more concessional terms are desirable. I am also convinced that at least as much emphasis must be placed on how the development finance is used, as on the amounts and the terms. I am hopeful that as donor countries are convinced, not only of the need for more development finance, but also that it can be and will be put to productive use, they will see their way clear to increasing the amounts of resources made available to the poorer

countries, whether on a bilateral or multilateral basis. I am confident that the United States will do all that it can.

I would like to conclude this letter by expressing my appreciation for the constant help and encouragement given me by the United States Governor, Secretary Henry H. Fowler, and by the United States Executive Director, Mr. Livingstone T. Merchant.

Faithfully yours,

George D. Woods

The President
The White House

February 4, 1966

My dear Professor Haberler,

Thank you for your letter of January 26. As you may know, Guy and I had a dinner together the other night, and, as always, I found talking with Guy a most thought provoking exercise.

As for the title of the seminar, do you think the following sounds too pompous -- "World Bank Proposals on Supplementary Finance: A Study in Economic Invention"? I would hope that the participants in the seminar would have at least read the Introduction and the first chapter if not the entire report. I would prefer not to spend much time summarizing the Study itself but rather talking about some of the problems we faced in doing the Study and evolving a proposal and why we chose certain solutions as against others. I would also try to compare our proposals with the Fund's compensatory financing scheme.

Sincerely yours,

Irving S. Friedman

Dr. Gottfried Haberler
Harvard University
326 Littauer Center
Cambridge, Massachusetts 02138

Mr. Geoffrey M. Wilson

February 1, 1966

Irving S. Friedman

Countries experiencing large increases in dollar balances

Please take the following as my personal views.

The countries which have experienced large increases in dollar balances during the last year are:

*Argentina
*Brazil
*Venezuela
Iran
*Israel
Jordan
*Saudi Arabia
*Libya
Morocco.

However, other countries have a relatively comfortable position in dollar balances despite the fact that they have not increased during the last year, particularly if the judgment is one of buying additional World Bank paper. Among such countries I would place:

*Austria
Belgium
France
Germany (? because of present holdings)
*Italy
Netherlands
Sweden
Switzerland
*Canada
*Japan
Finland
*Spain
Peru (?)
China
Thailand

I have starred those which I regard as potentially the "best customers."

Mr. Andrew M. Kamarok

February 2, 1966

Irving S. Friedman

Technical Assistance Planning Mission to Mauritania

I am attaching a copy of a memorandum received from Mr. El Emery on Technical Assistance Planning Mission to Mauritania. I am troubled by the suggestion that the head of the mission be an outside person even though he has worked with the Bank. I do believe that countries should be encouraged to feel that what they are obtaining is Bank advice and assistance and not the advice of individuals recruited by the Bank. I do not, of course, feel the same about individuals performing some of the more specialized functions on a mission.

I do not know how the Projects Department feels about advice given by technicians on various sectors.

I do find the proposed mission necessary and, therefore, do not wish to adopt an attitude that would make the mission impossible. Therefore, I would appreciate an immediate decision on whether someone in the Bank could head this mission. If not, I would be prepared to go along with recruiting Mr. Faaland but on the ground this is an Advisory Planning Mission since I regard this as a part of the regular work of the Bank. My agreement would be based simply on the practical consideration of not having anyone else on the staff.

Attachment

cc: Mr. El Emery
Mr. Rivkin
Mr. Eschenberg

Mr. Albert Waterston

February 2, 1966

Irving S. Friedman

"What Do We Know About Planning?" by Albert Waterston

Thanks for drawing my attention to the article on S.I.D. I think that we ought to have enough copies for general circulation to the professional staff. Should we buy some reprints or should we reproduce it some other way?

Mr. Michael L. Hoffman

February 2, 1966

Irving S. Friedman

I am attaching a copy of a letter I received from Sidney Dell. His summary of our meeting is more or less accurate except paragraphs 9 and 10. I told him quite clearly in the presence of the entire group that I wished to talk to Dick or yourself about what we would be prepared to contribute on consortia and consultative groups if requested. Furthermore, on Suppliers' Credits the date I talked about was September or October and not the middle of the year. I would appreciate your suggestions you might have on what commitments we should be prepared to undertake.

Incidentally in his paragraph 3 sentence starting "Despite these reservations....." it would have been more accurate if he had written "Mr. Friedman said that he might even be prepared" instead of writing "would be prepared."

I am inclined not to try to correct the records so to speak but rather to wait until the next time we see each other.

Attachment

Mr. Andrew M. Kamarck

February 2, 1966

Irving S. Friedman

Terms of Reference of Mr. Bitterman

The terms of reference outlined in your January 27 memorandum seemed reasonable enough, although I do wonder if a history of the Bank will ever be prepared. However, I would like to say that we did not assume that this material will not be published. Some of the material may prove publishable and interesting in, say, Staff Papers on finance and development.

Moreover I would hope that if Henry does come, he will be available for some other kind of writing as well as he has had the responsibility of writing materials on sensitive subjects for very wide audiences.

Mr. George D. Woods

February 2, 1966

Irving S. Friedman

The Joint Publication by Fund and Bank

We have agreed with the Fund that the present Fund Staff Papers should become a joint publication entitled Fund/Bank Staff Papers. You may recall that this possibility has come up in past conversations with each other.

The Fund Staff Papers consist of technical articles written for a professional audience. They have been a large factor in building the reputation of the Fund staff for technical competitiveness. We were planning to have a similar series for the Bank, but it seemed to us that it would be better if we could do this sort of thing jointly with the Fund. The Fund staff has informed us that they are agreeable and are prepared to recommend it to the Fund's Executive Directors.

The proposal is that the change would go into effect in 1967 when a new volume of Staff Papers begins. This would give us the necessary time to compile some material that could be suitable for publication. It is our intention to make this work one of the by-products of our regular economic work. I have consulted with Mr. Demuth and Mr. Wilson, and both have expressed their support for this proposal. The Fund is being informed that we are glad to go along. I assume that you would wish to inform our Executive Directors. Mr. Mendels informs me that this would be sufficient since Board approval is not necessary.

cc: Mr. Mendels: Do we need Board clearance for this or is it enough to inform them?

February 2, 1966

Dear Andy,

I am enclosing a copy of the letter
which I sent to Paul Hoffman.

Thanks for your help.

Sincerely yours,

Irving S. Friedman

Enclosure

Mr. Andrew E. Rice
Executive Secretary
Society for International Development
1346 Connecticut Avenue, N. W.
Washington, D. C. 20036

February 2, 1966

Dear Mr. Hoffman,

As you know, Andy Rice and I have been talking about the implementation of the suggestion which has been made for the formation of a Finance Committee. We were hoping that you would be Chairman and as Chairman invite other prospective members to a luncheon. Andy has kindly drafted for your consideration a possible invitation which you might send. Needless to say, the suggestions for committee members are just ideas, mostly of Andy, which he has discussed with me. We would be most appreciative if you would delete, substitute or add anyone you think would be appropriate.

I am well aware of some of the other problems which are keeping you busy these days. But I know that you belong to that special breed of people who always seem to be able to do something more.

I am also attaching a copy of a memorandum on fund raising which was also prepared by Andy with some comments from me.

With warm appreciation,

Sincerely yours,

Irving S. Friedman

Attachments

Mr. Paul G. Hoffman
President
Society for International Development
1346 Connecticut Avenue, N. W.
Washington, D. C. 20036

Mr. George D. Woods

February 1, 1966

Irving S. Friedman

The Economic Report of the President

The Economic Report of the President, together with the Annual Report of The Council of Economic Advisers, has just been published.

As you know, with respect to foreign economic assistance, the President emphasized the importance of what we call "performance". (Incidentally, although we have made substantial progress in coordinating the economic work, including missions, of the various Departments in the Bank, there is still the need to achieve the acceptance by all the Area Departments in practice of the principle of performance in the pursuit of appropriate economic policies as prerequisites for new borrowings from the World Bank Group.)

In the Report of The Council of Economic Advisers the point was made that the balance of payments program, including the exemptions in the IET and the priorities established in the voluntary programs, "protect the access of less developed countries to U.S. capital". (p.168.)

The Report accepts the argument that there is need for a substantially increased inflow of foreign capital into the less developed countries and cites the World Bank staff estimate of \$3 to \$4 billion a year. It also points to the indebtedness problem and refers to the IDA as one of the international organizations which meets the needs of the developing countries for capital on soft terms. The paragraph on the IDA concludes: "The Association must have additional funds from its members if it is to continue even its current level of operations". (p.142.)

It also has a rather detailed section on the international monetary system and seems to favor both the creation of special reserve units and increased drawing rights in the Fund. There is strong support for the position that the Fund play a central role in the decision-making process regarding the creation of new reserve assets.

Mr. Owen

February 1, 1966

Irving S. Friedman

Would you please make sure that Mr. Lejeune is invited to the meeting when we discuss Administration. Thank you.

Mr. Geoffrey M. Wilson

February 1, 1966

Irving S. Friedman

Countries experiencing large increases in dollar balances

Please take the following as my personal views.

The countries which have experienced large increases in dollar balances during the last year are:

- *Argentina
- *Brazil
- *Venezuela
- Iran
- *Israel
- Jordan
- *Saudi Arabia
- Ceylon
- Libya
- Morocco.

However, other countries have a relatively comfortable position in dollar balances despite the fact that they have not increased during the last year, particularly if the judgment is one of buying additional World Bank paper. Among such countries I would place:

- *Austria
- Belgium
- France
- Germany (? because of present holdings)
- *Italy
- Netherlands
- Sweden
- Switzerland
- *Canada
- *Japan
- Finland
- *Spain
- Peru (?)
- China.
- Thailand.

I have starred those which I regard as potentially the "best customers."

Foreign exchange resources are a critical element in the ability of a country to carry on a development or growth program. The less developed countries, taken as a group, do not have large foreign assets or reserves on which to draw for development purposes. They must depend on current flows of foreign exchange whether earned from the export of goods and services or made available by inflows of public and private capital. Export earnings are by far the largest single source of foreign exchange by the less developed countries accounting on an average of about 80 per cent of the total. For this reason the volatility of world markets for primary commodities, together with the slow long-term growth of demand, is one of the more frustrating of the many uncertainties which beset the less developed countries. Since most low income countries are almost wholly dependent upon primary commodities for their export earnings, their development programs are peculiarly vulnerable to unpredictable declines in commodity prices ~~and~~^{or} earnings. The ultimate resolution of this difficulty must be sought through diversification of production and exports, combined with access to foreign markets but this requires the successful implementation of development policies. The aim of the World Bank's proposal on supplementary financial measures is to

Thus, it is primarily a proposal in the field of development finance. This central preoccupation with development has been the guiding principle in the construction of the scheme contained in the Bank's study/

The problem of the consequences for development of unexpected export earnings decline was a major preoccupation of the United Nations Conference on Trade and DEvelopment (UNCTAD), which brought together in 1964 representatives of 116 governments in Geneva.

(give some diagrams on how shortfalls work)

February 1, 1966

Mr. Alfred H. Von Klemperer
Vice President
Morgan Guaranty Trust Company
23 Wall Street
New York, N. Y. 10015

Dear Fred,

As you requested in your letter of January 10, enclosed is the "Report on the Status of the International Bank Studies on Multilateral Investment Guarantees" prepared by the Staff of the Bank to which is attached a "Summary of OECD Report on Multilateral Investment Guarantees."

As soon as we have had a chance to go over your "thinking" on the problem of the differential between export credit and project loans as outlined in your letter of December 7, 1964, to Harold Linder, I will be in touch with you.

With warm regards,

Yours sincerely,

Irving S. Friedman

Enclosure

Mr. George D. Woods

January 28, 1966

Irving S. Friedman

Comments on Secretary Fowler's Speech

The following are some comments on Secretary Fowler's speech as promised. Despite temptation to do otherwise I will limit myself to some reactions to the section entitled "The Interdependence of the Developed and Less Developed Countries" pages 14 to 16.

Secretary Fowler starts his discussion of these problems by noting that net disbursement of official aid from the industrial to the developing countries amounts to about \$6 billion per year and private long-term finance added another \$2.9 billion. He then quotes the Annual Report of the Bank giving our staff estimate that \$3-4 billion a year more of development finance could be effectively used. He then cites the large increase in international indebtedness of the developing countries quoting the figure of \$33 billion and the annual servicing amounting to \$3.5 billion adding the comment that this figure for servicing can be expected to rise even more rapidly in the future.

It is against this factual background that he makes two proposals of particular interest to us.

- (1) Increase commitments to development assistance by countries having balance of payments surpluses.
- (2) Increased support for IDA, provided that burden sharing by other countries is forthcoming and subject to the condition that when the time comes to fulfill these larger commitments "the expanded obligations need not be performed by those developed countries in serious balance of payments difficulties."

Both of these proposals he sees as making sense from both the international monetary and development standpoints.

It is easy to demonstrate that development assistance requires a transfer of real resources from the industrial to the less developed countries and, therefore, is only indirectly related to the question of the use of balance of payments surpluses. The amount of resources which a country can make available for development is related more to the size of the economy; its efficiency; the existing demands for consumption and private and public investment; its ability to increase savings by interest rate inducements, government borrowing from the public or taxation; relative role of the foreign trade sector in the entire economy, etc.

However, there is a simple and logical way in which earned balance of payments surpluses could influence the magnitude of development assistance. A country which is accumulating more foreign exchange reserves than it desires can simply transfer part of this international purchasing power to the L.D.C.'s directly or via the World Bank group. Moreover, if the surplus country believes that it cannot spare more of its own resources for development assistance it can ensure that the contributed foreign exchange will not be spent in its own country. Not only would such foreign exchange be provided on an untied basis, but using a kind of reverse tying, the donor country could be excluded from the list of supplier countries in international bidding if it so requests. This will sound unrealistic to those who assume that foreign aid is given to promote exports or in response to public pressures from exporting firms and industries. However, for countries without balance of payments problems, excessive reserves and fighting inflation, export promotion runs counter to national interests. A compromise approach is to untie and multilateralize more, if not all, of foreign aid, until the country exporting more on a competitive basis. In this way, using increases in reserves above an amount regarded as adequate, for increasing multilateral aid may be a happy solution for a number of difficulties.

In practice one of the principal obstacles in the effective use of the balance of payments surplus argument is that countries are continuously changing their idea of adequacy of reserves. For example, the Germans at present, are prepared to see a considerable decline in their reserves but not to a level which only a few years ago would have been regarded as adequate. Partly this is due to the increasing magnitude of their foreign trade and partly it reflects the feeling on the part of central bankers that a loss of reserves reflects inflationary domestic conditions and to tolerate a large loss of reserves encourages continuous inflation. However, partly it is simply getting use to a certain figure. We have had the same experience with the French and even to some extent with the Italians. The United Kingdom was the pioneer country in giving a kind of magic quality to a certain level of reserves and calling them minimum -- for many years this has been about \$3 billion. The United States has strengthened this approach by its fearful attitude towards loss of gold even when it still holds about one third of the total world's gold holdings. Nevertheless, despite this attitude on reserves, it is conceivable that countries would be willing to make part of this stock of reserves available for development by investing in long-term World Bank bonds, loans to IDA, etc. The Germans are, of course, an example of a country that has already done this to some extent and other countries such as Canada and France might be willing to do much more.

Another argument that may be made against the use of balance of payments surpluses as suggested above is that it will have inflationary effects in the industrial countries if they are all at more or less full employment conditions. Whenever the foreign exchange is spent, more exports

1/ Some of the discussions of the adequacy of reserves is confused because there is intermingled countries' attitudes on their dollar reserves and their attitude on holding of dollars. A number of countries feel that they have an adequate supply of dollars or even an excess but would not regard themselves as in an excess if their dollars were readily convertible into gold.

that is desirable will result. However, in practice countries are not likely to be in exactly the same phase of the business cycles and multilateral procurement assures that orders go to those firms still eager and able to obtain more business even at market prices. This counter-argument may be persuasive, although it does not detract from the basic proposition that the main job is to convince countries that during the upswing in business conditions to make more room for resources to be transferred for development assistance and a higher priority for development finance. This means less domestic consumption and/or less public or private investment and/or more imports. If this room is not made, the anti-inflationary argument against development finance will prove difficult to refute for the magnitude of development finance which are needed and can be effectively used.

Before commenting on Secretary Fowler's second proposal -- increased IDA under certain conditions -- another comment may be made on the balance of payments surpluses proposal. The use of balance of payments surpluses must be carefully distinguished from the use of internationally created reserve assets, as for example set forth in the Reuss-Ellsworth report. Secretary Fowler is presumably referring to earned surpluses which gives the country the right to exchange them for resources from abroad in the future. The proposals for increasing reserves through creating new international monetary units do not really contemplate that they will be used to finance a transfer of real resources. Their availability would be more or less automatic. Such arbitrarily created reserves are more in the nature of an insurance that in case of unexpectedly large and stubborn disequilibria in the balance of payments, countries will have sufficient time to achieve a new equilibrium without resorting to measures destructive of their own or of international prosperity. It is buying time, not resources. The international community may eventually decide to create such new reserve units and make part of them available to the developing countries even for development finance, despite their reluctance to make use of such reserve units automatic by the debtor and their eagerness to avoid such usage or keep it short-term. But this would be essentially a political decision and involve a much greater departure from accepted monetary management practices than Secretary Fowler's proposal in their address. However, it is a step in that direction.

In speaking of increases for IDA Secretary Fowler, as mentioned above, has two provisos: (1) burden sharing by other countries and (2) the expanded obligations need not be performed by those developed countries in serious balance of payments difficulties.

As for the burden sharing, this is a well accepted concept even though it tends to approach the problem of development finance from the wrong end of the telescope. Instead of looking to the need and effective use which could be made of external assistance, it focuses attention on what any one or creditor country is willing to do and assumes that the pace of development

will then be tailored to what the less willing country is willing to do. If we had had a burden sharing concept in the reconstruction of Europe, Germany would still be in shambles, or if it applied to bilateral assistance, the gulf between the rich and poor nations would be even greater. Burden sharing in principle would be fine if the industrial countries undertook a collective responsibility. For example, if the industrial countries as a group, say the Group of the Ten or the OECD, were to agree that external aid had to be increased by some amount, say \$3 billion per year, and pledged that this amount would be forthcoming as long as the performance of the recipients warranted such assistance, then all sorts of mechanisms could be devised for changing the proportions contributed during any one year by a particular industrial country. Such formulas could be related to size of economy, rates of growth, per capita income after taxes, balance of payments position, price developments, etc. There are many different ways this can be done, but it does not involve, however, the concept of group responsibility,

This is also my principal comment on the proposal that the obligation to make larger contributions to IDA be excused when a country is in serious balance of payments difficulties. If this is part of a scheme that means that industrial countries which are experiencing balance of payments surpluses automatically make up the difference, then this approach is compatible both with the pursuit of development and with the need of IDA, both of which require certainty. However, unless there is such automatic offsetting techniques, international development institutions could not hope to extend credits on the basis of an uncertain amount of resources in the future. However, this collective approach is not suggested. It would be interesting to know whether Secretary Fowler would be prepared to advocate it. Fortunately there are other less radical ways to cope with the balance of payments consequences of increased commitments to IDA for countries in balance of payments difficulties.

It may be noted, however, that although Secretary Fowler does not suggest a collective approach, it is not a radical departure from his line of reasoning if there are brought together his arguments on what surplus countries should do with the way in which deficit countries might act.

Secretary Fowler makes clear that he is looking for an approach that "makes sense from both international monetary and development standpoints." As long as the international monetary problem is regarded as essentially arising from the accumulation of dollar balances by monetary authorities outside of the United States because of the possibility that such dollars might be offered for conversion into gold, it is not hard to see how these two objectives can be reconciled. In effect countries would accept the approach that instead of accumulating more reserves in the form of dollar balances or gold as the counterpart to their balance of payments surpluses, they would accumulate long-term assets in the developing countries bilateral assistance or long-term World Bank bonds or similar long-term instruments.

Moreover, the increased difficulties of domestic monetary and fiscal management resulting from increasing and changing amounts of foreign assistance would be offset by the benefits of providing another technique for dealing with unwanted reserve accumulation. It would also help overcome the fear of the possibility that while some countries were "hoarding" reserves, others had to take excessively restrictive measures because of a "shortage" of reserves (a fear I do not share if the IMF is allowed to do its job.). However, if at the same time the United States advocates the need for agreed annual increase in reserves, then the two objectives of the international monetary system and development tend to conflict. Earned reserves resulting from balance of payments surpluses, in whatever form held, would not be accumulated as rapidly; more reserve assets would have to be created unless the long-term assets being accumulated become the basis for acquiring short-term assets when needed. Of course, this is completely aside from the argument whether it is felt desirable that for political reasons the less developed countries should benefit directly in some amount from any new technique for increasing international monetary reserves.

Thus, I see practical difficulties in the proposal for increasing IDA as suggested by Secretary Fowler, but the ideas underlying his proposal merit further exploration, and we are so doing. I remain skeptical of the linking of created international reserves with development finance. In short I think it disguises the real problem of transfer of resources and will tend to keep down the amount of resources made available for development because of the reluctance of the European countries to provide large scale resources in this odd manner. My present opinion is that, if done, it will take much of the steam out of the more direct efforts to increase development finance. The trick is to use the acceptance of the greater need for development finance which precludes all those proposals to gain acceptance for schemes which are well disguised and meet the magnitudes of need. Similarly I still remain basically convinced that development finance is best related to economic capacity to make available real resources and not to changing of payments positions. I remain disturbed that a rich country which is experiencing balance of payments deficits because of inflationary domestic policies (not the case of the United States) should be excused from helping the poor countries.

January 28, 1966

Dear Mr. Tainsh:

Thank you for your letter of January 20. I had been waiting to reply to your earlier letters, hoping to have news for you concerning the publication of your article "Second Thoughts on Aid." I have not yet been able to arrange for its publication but I am hoping to place it before long. This is a wide ranging article, raising many important issues of particular interest at this time when India is faced with the need to import large quantities of foodstuffs to avoid famine. Few would disagree with your conclusions that government policies in the subcontinent should be designed to give producers adequate incentives, and that much more must be done to prevent waste in handling foodgrains.

As regards the Report of the special World Bank mission to India, I am afraid I will have to disappoint you since the report was prepared as a personal one to the President of the Bank, Mr. Woods, and will not be made public. On the subject of India's economy, you will be interested in a recent article in the January 1966 issue of "Foreign Affairs" by Professor Charles E. Lindblom. The article is entitled "Has India an Economic Future?" It gives a most interesting account of progress in India and deals particularly with the strengths and weaknesses of Indian agriculture. I am attaching a copy of the article in case it is not readily available to you.

You mention the Swedish Government's contributions to India and East Pakistan to build silos. We have recently completed negotiations here in Washington with Pakistan and Sweden for the East Pakistan grain silos project, to which the International Development Association, (as you know, an organization of the World Bank group) will be contributing \$19.2 million. The Swedish Government's contribution is \$4.8 million. In addition to providing for construction of new silos, the project has provisions for improved storage and handling of foodgrains in warehouses and stores throughout East Pakistan.

I am afraid that the World Bank mission to Egypt, to which you refer, has already begun its work. It includes two agricultural experts from FAO.

I shall be in touch with you again before long about your article. In the meantime, may I send you all good wishes for 1966. With warm regards to you and the Roths.

Yours sincerely,

Irving S. Friedman

Enclosure

Mr. A. Ramsay Tainsh
Industrial & Business Consultant
Osternalsgatan 61
Stockholm, Sweden

January 27, 1966

Personal

DECLASSIFIED

AUG 16 2023

WBG ARCHIVES

Dear Bill,

I would like to say again how much I enjoyed your "presidential" address last Saturday night. Both the content and delivery were superb. If by any chance you are making copies available, I would very much like to have one.

Yours sincerely,

Irving S. Friedman

Mr. William McChesney Martin
Chairman
Federal Reserve Board
Washington, D. C.

Mr. J. Burke Knapp

January 26, 1966 .

Irving S. Friedman

I would like very much if we could have a meeting to discuss the interrelation between the working of the Loan Committee and Economic Committee and of the loan work in the Bank and the economic work. I would suggest that this meeting include Cope and Kamarck as well as the two of us. I will be glad to meet whenever it is convenient to you.

Mr. Horst H. H. Eschenberg

January 26, 1966

Irving S. Friedman

Irish Mission

The question has arisen as to who should head the Irish Mission. My decision is that it should be headed by Mr. Knox.

cc: Mr. Cope
Mr. Alter



Record Removal Notice

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Document Date 7/30/1965	Document Type Memorandum Letter			
Correspondents / Participants To: Escott Reid From: Irving S. Friedman				
Subject / Title Staffing Economic Department				
Exception(s) Personal Information				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
		<table border="1"><tr><td>Withdrawn by Bertha F. Wilson</td><td>Date August 16, 2023</td></tr></table>	Withdrawn by Bertha F. Wilson	Date August 16, 2023
Withdrawn by Bertha F. Wilson	Date August 16, 2023			

January 25, 1966

Dear Mr. Newmyer:

Thank you for your letter of December 13, 1965. My apologies for not sending an earlier reply.

I found the article on Spain most interesting and THE LAMP a fine publication. I would be very happy to receive this magazine regularly at my office.

Thank you.

Very truly yours,

T Irving S. Friedman
The Economic Adviser to the President

Mr. Arthur G. Newmyer, Jr.
Newmyer Associates, Inc.
Wire Building
1000 Vermont Avenue, N. W.
Washington, D. C.

Mr. E. J. Donovan

January 24, 1966

Irving S. Friedman

Parking

Please be advised that I no longer have need of a parking space in the building and wish to discontinue renting one.

Thank you.

January 24, 1966

Dear Mr. Malaccorto,

Thank you for your letter of January 5, 1966, bringing the name of Mr. Peter George Carrus, Jr., to my attention for possible employment as a member of my staff. I shall certainly look into the matter personally and do whatever I can for Mr. Carrus.

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

Mr. Ernesto Malaccorto
Coordinator, Committee of Nine
PAN AMERICAN UNION
Washington 6, D. C.

January 24, 1966

Dear Van,

Thank you for yours of January 3 and 19, 1966, regarding the meeting of the Review Group on the Geiger Manuscript of the Council on Foreign Relations. I will be happy to attend the meeting on February 14 and will stay for the dinner after the meeting.

With regards,

Yours sincerely,

Irving S. Friedman

Mr. Harold van B. Cleveland
Council on Foreign Relations
58 East 68th Street
New York, N. Y. 10021

DECLASSIFIED

January 24, 1966

AUG 16 2023

Personal

WBG ARCHIVES

Dear Ed,

Your assignment in Brussels sounds most interesting, and I am sure you are learning a great deal.

It is very hard to write about Carli as you requested, I do know him quite well. Perhaps I can give you a very brief summary, and we might talk about it more when we see each other in Brussels or Washington. Carli is one of those rare people who combines not only technical ability but also interest in technical economic matters with a flair for both analysis and operation. He tends to be rather blunt in his expression use and doesn't have much time for nonsense. He has given me the impression of a person who sets his own priorities of what he regards as important and doesn't let his attention waver from the most important. He also is interested in the philosophical and general aspects of what he is doing in world affairs. I think it is fair to say that his horizons extend well beyond Italy and that he is a true internationalist. I am afraid that I cannot give you a list of things that he does when he relaxes although I do know that he enjoys boating. My experience is that he is not one to gush with sentimentality but is capable of friendship. He is what I would regard as a true pro.

I don't know whether this sort of thing is at all helpful but it may give you some leads. Perhaps we could chat about your own impressions when we see each other next.

Work in the Bank has proven to be very hard but interesting. I have learned a great deal in the last year but at heart I still remain primarily interested in financial and monetary problems. Fortunately I do regard the problem of development one of tremendous importance for the future of the world and that motivation makes it possible for me to devote a lot of energy and even arouse enthusiasm for what I have been doing. I am taking the liberty of sending you under separate cover a copy of our Supplementary Financial Study which is one of the outcomes of the work I have been doing in the last year. Most of my work is, of course, with respect to individual countries. I am trying to make some contribution to improve analysis of countries' economic performance with particular reference to development, and I feel that the most important contribution that anyone outside a developing country can make to that country is by stubbornly insisting that a sine qua non for economic performance is a pursuit of proper economic policies. You will see this philosophy reflected in the Supplementary Financial Study.

- 2 -

I will be glad to read that your family is doing fine and I am sure that you will continue to enjoy your assignment.

With warm regards,

Yours sincerely,

Irving S. Friedman

Mr. Edward Cowan
THE NEW YORK TIMES
Times Square
New York, N. Y. 10036

January 24, 1966

Dear Mr. Clark,

Thank you very much for sending me a copy of President Kennedy's picture, and I will be looking forward to receiving the larger copy. It was most kind of you to send it to me.

My wife and I are looking forward to a visit by your wife and yourself. We would like to show you our house and have a chance to get better acquainted.

Yours sincerely,

Irving S. Friedman

Mr. Noel Clark
6416 Wisconsin Road
Glen Echo Heights, Maryland

Mr. Andrew H. Kamarck

January 24, 1966

Irving S. Friedman

Meeting with Dr. Balassa January 25, 1966.

Be sure to include me in the talks with Balassa on the 25th. Perhaps we may have a meeting of those concerned before he comes.

January 24, 1966

Dear Jack,

Escott Reid asked me to send this to
you.

Sincerely yours,

Irving S. Friedman

Enclosure

Mr. W. John R. Woodley
Exchange & Trade Relations
International Monetary Fund
Washington, D. C.

Brochure on Glendon College of York University and
The Idea of Glendon College by Escott Reid.

January 24, 1966

My dear Bob,

By mistake your letter of January 6 has not been answered as yet. I want to thank you for bringing U Hla Maung's name to my attention. I am exploring whether we might be able to use him. I will take the liberty of getting in touch with you again on this matter.

It was fun seeing you and your wife the other night.

Yours sincerely,

Irving S. Friedman

Mr. Robert R. Nathan
ROBERT R. NATHAN ASSOCIATES, INC.
1218 Sixteenth Street, N. W.
Washington, D. C. 20036

Nathan letter referred to above sent to Mrs. Sundrum: "Do you or Tun Thin know this gentleman? If yes, what do you think of his qualifications? If they are good, might he fit into the Bank?"

Mr. George D. Woods

January 21, 1966

Irving S. Friedman

Mr. J. Douglas Gibson

You will recall that in December before you went on your trip I spoke to you about a Mr. J. Douglas Gibson of Canada. He had resigned from a Vice Presidency in the Bank of Nova Scotia. I had indicated that I thought he might be useful in the work of the Bank including heading or strengthening of special missions. In the meantime I spoke to Mr. Gibson, and he said that he might be interested and was going to visit with me early in February on his way to a Caribbean vacation.

A few days ago Escott Reid telephoned on various things. Among them he noted that Douglas Gibson had mentioned our conversation to Escott. Escott inquired whether you might have time to see Gibson when you visited Toronto.

Douglas Gibson is a considerably better than average person, and you might find it worthwhile to meet him if you have the time.

If you decide to see him, I could inform Gibson directly or via Escott Reid.

Mr. George D. Woods

January 21, 1966

Irving S. Friedman

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Douglas Gibson is a considerably better than average person, and you might find it worthwhile to meet him if you have the time.

If you decide to see him, I could inform Gibson directly or by Escott Reid.

January 21, 1966

Dear Dr. Robinson:

This is to acknowledge your letter of 14 January inviting the Bank to provide a background paper for the Sixth Annual Conference of the Cambridge Overseas Studies Committee. We will be glad to undertake to prepare such a paper.

As far as attendance at the Conference is concerned, I appreciate your inviting me, but it will be impossible for me to attend since your Conference comes just before our Annual Governors Meeting. However, while I am not yet sure who from our senior staff will be in a position to attend, we will certainly be able to send someone.

In the meantime, I would appreciate it if any material concerning the Conference were sent to Mr. A.M. Kamarck, Director of the Economics Department.

I was pleased to hear from you of the good contribution that Stanley Please made to the Conference last year.

Yours sincerely,

George D. Woods

Dr. R. E. Robinson, Chairman
Overseas Studies Committee
University of Cambridge
St. John's College
Cambridge, England

AMK:lgn

January 21, 1966

Dear Mr. Grondona:

Thank you for your letters of November 16, 1965, and January 6, 1966. The report of the Bank staff on supplementary financing has been published and a copy is being sent to you under separate cover.

As I mentioned in an earlier letter, your book and the supplementary correspondence have been examined within the Bank staff. The responsible specialists have expressed reservations regarding your proposal but have felt unable to make detailed comments in the absence of a more elaborate demonstration of its feasibility and effectiveness in relation to actual price and quantity movements in commodity trade over a substantially long period such as the past decade and a half.

I recognize, of course, that in very technical matters it is not at all unusual that honest differences of opinion may arise among experts. In any case, however, it is clear that the Bank would not in any case be in a position to extend material support to the kind of scheme that you have outlined. Such support would presumably have to be either in the nature of short-term loans to help a particular country sponsoring a PSC to stabilize its currency or a loan, either of short or long term, for the purpose of financing the acquisition and retention of stocks. A further complication in this case is that such loans would have to be made to developed countries.

You will understand, of course, that exchange stabilization is a field reserved to the IMF. With regard to financing of stocks, as we have already stated before various international bodies, such activity would require a major reorientation of the Bank's role in development financing, and I see no likelihood of this taking place in the foreseeable future.

Mr. L. St. Clare Grondona

-2-

January 21, 1966

May I express my appreciation of your interest in the Bank and in a most important aspect of economic development.

Sincerely yours,

George D. Woods

Mr. L. St. Clare Grondona
6, Knightsbridge Court
Sloane Street
London, S. W. 1
England

AJM:lgn

Mr. George D. Woods

January 21, 1966

Irving S. Friedman

Reply to letter from Mr. L. St. Clare Grondona

Attached hereto is a suggested reply to Mr. Grondona. Our file of correspondence with him is getting rather thick. His letter to you of November 16 was acknowledged by me in your absence. In December you sent me a note suggesting that if this fellow is "a crank", you were in favor of terminating the exchanges but that if he had something, lets do something about it. Some of our technicians have given this matter very careful attention, and we would conclude that he falls into the "crank" category. The letter tries to terminate the exchange of correspondence in a polite manner. Of course the chances are that we will continue to hear from him.

You will note that nothing is said in reply to his inquiry as to when you expected to be in London so that he would be "available for meeting at your convenience."

I am also forwarding a brief memorandum prepared on Mr. Grondona's work which you may find of interest.

Enclosure

January 20, 1966

Dear Mr. Johnson:

Your letter of January 5, 1966 to Mr. George D. Woods, President of the World Bank, has been referred to me for reply.

On behalf of Mr. Woods, I should like to thank you for your interest in his recent article which appeared in Foreign Affairs and I would be glad to receive a copy of your thesis and report, when available.

The nature of the consulting services which you are bringing to the attention of the Bank is not entirely clear to me from your letter. If you would clarify the type of services which you are in a position to render and send appropriate supporting documents and other references to your activities, I should be very happy to bring this situation to the attention of the appropriate officers in the Bank who are concerned with the utilization of the services of consultants.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. S. K. Johnson
S. J. Associates
P. O. Box 3046
Accra, Ghana

bc: Mr. George D. Woods

Mr. S. Aldewereld
Mr. M. L. Lejeune

January 18, 1966

Irving S. Friedman

Curriculum Vitae of Mr. Victor Mendell Longstreet

I am attaching hereto the curriculum vitae of Mr. Victor Mendell Longstreet. Andy Kamarck and I have known him for many years.

At the moment he is free of assignment and is considering a number of attractive offers out of Washington. However, I believe that he might be induced to come to the Bank if we were interested in having him.

Attachment

Mr. A. M. Kamarck

January 18, 1966

Irving S. Friedman

Thank you for bringing the speech of Minister Schmucker of Germany to my attention. Could you please give me a note on the Bank experience in Germany to which you refer, namely when the Bank agreed to spend the money outside of Germany.

Mr. George D. Woods

January 18, 1966

Irving S. Friedman

Suggestions for ECOSOC Speech

Your remark this morning to the Executive Directors reinforced a thought which I have had about the ECOSOC Speech. Would it be proper for one of the themes, if not the main theme of the speech, to be the way in which the Bank continues to do its work in a statesman like, objective, non-political, and technical fashion despite the occurrences of major political and even military disturbances. I think that even much of what we might want to say about performance could be linked to this theme.

Mr. Aron Broches

January 14, 1966

Irving S. Friedman

Length of Service in Fund/Bank

At the morning's Council Meeting some comments were made about people having certain length of service in the World Bank. I would like to urge that some formula be found under which people who have transferred from the Fund to the Bank, or vice versa, are not regarded as in effect starting anew in either institution, but rather the date at which they joined either one be regarded as the starting date for measuring their longevity in service. Admittedly this is a personal matter to me as well as of general application. Most of my professional life, as you are well aware, has been spent in the Bretton Woods institutions, and I would find it rather odd to now be regarded as a newcomer. I know that this applies to others as well.

In view of the great progress which has been made in facilitating transfer of personnel from one institution to another, I would hope that this small step in Bank/Fund cooperation would be feasible and well received in both institutions.

cc: Mr. George D. Woods

Files

January 14, 1966

Irving S. Friedman

Conversation with Mr. David Hubback of U.K. Treasury, January 13, 1966

David Hubback of the U.K. Treasury telephoned last night to say hello. He said he was sorry we had not arranged to see each other and hoped we would be seeing each other soon in London or Washington. He went on to comment that the discussions in the Group of the Ten were broadening to include matters of interest to the Bank, obviously referring to what we have been calling the "link." I asked whether there had been a change in the climate of the opinion towards this proposal now. Was it now more acceptable than it had been? His reply was that he thought there might be some change on the continent, but that in any case the U.K. authorities, particularly the Chancellor, were very interested in it.

He said that there would be an opportunity to talk more about it in April when the Group of the Ten would be meeting in Washington. I told him that we were kept informed through the Fund. I also told him that my personal view was that the Bank should not take the initiative in this matter, but wait until if and when, it was invited to study the matter. In the meantime, we would be looking into the entire question of ways and means of raising the level of development finance of which these link proposals were among the ones being considered. Therefore, if it were ever decided to invite the Bank to study the question and the Bank were to accept the invitation, we would have done a certain amount of preparatory work and thinking. He thought that this was a correct attitude, and we agreed that from time to time he might be writing to me on a private basis to ensure that we were informed of the latest developments in the discussions. He said he thought by June or July there would be a broadening of the participants in the Group of the Ten discussions and remarked that I was a "natural link" between the Bank and the Fund. I gathered from that remark that they are thinking of the possibility of inviting the Bank to participate in the discussions or to prepare a study and are aware of the question which would arise about Fund/Bank relations.

Mr. B. A. deVries
Mr. M. L. Lejeune
Irving S. Friedman

January 13, 1966

Leon Bepaloff

Mr. Bepaloff wants a permanent job. He is being considered by other agencies. He is essentially a knowledgeable practitioner. Are we interested?

He would like a reply.

January 13, 1966

My dear Professor Haberler,

I am glad to have the opportunity to address your seminar, and, as far as I can tell, Monday, February 28, will be fine. I am sending you under separate cover a few copies of our report on Supplementary Financial Measures. Incidentally, the rumors that you have heard that the Fund people thought the proposals were too generous or unconditional were most interesting. I don't know what they have said to people. I only know what they have said to me. However, I am sure that you would find that the scheme is quite the opposite of an unconditional scheme. Generosity, of course, is a matter of value judgment. Personally I have tried to avoid thinking in terms of generosity, rather I have tried to find some objective criteria. Perhaps we can talk more about it when I visit Cambridge. I hope that my wife will accompany me, and we will spend the weekend in Cambridge. I will be glad to have a luncheon or dinner on Monday with members of the staff as suits your convenience. I will be in touch with Guy as to where we will be staying.

Looking forward to seeing you soon,

Sincerely yours,

Irving S. Friedman

Dr. Gottfried Haberler
Harvard University
326 Littauer Center
Cambridge, Massachusetts 02138

Mr. C. F. Owen

January 12, 1966

Irving S. Friedman

Economic Committee - Questions

Please inform the Economic Committee that I intend to raise the question next week of the order of priorities of the economic missions during the first half of 1966. Members should be informed that we are having great difficulty in finding the personnel, particularly chiefs of missions, and the question arises whether some missions may be postponed and thereby release personnel for other more urgent work.

I would also like you to inform them that I would appreciate having a list from each department including Economics and Projects as well as the Area Departments of people who are regarded as able to head economic missions irrespective of their present assignments.

I also intend to raise the question at the meeting of what economic functions have been delegated, in the department concerned, to the economic advisers or other similar personnel. Conversely, what economic functions are still performed by the Directors of the various departments. I am interested in being able to know in cases of all departments with whom I can expect to deal authoritatively on any economic question including assignment of personnel, specific operational questions involving economic judgments or policies, etc. I do not expect that the answers will necessarily be one person in every department. It may well be that in certain matters the Director of the department would like to deal directly with me instead of anyone else in their departments.

Mr. Siem Aldewereld

January 12, 1966

Irving S. Friedman

Some Suggestions

1. The role of micro-economics in over-all development financing.
2. Micro-economic analysis in a macro-economic world.
3. Problems in harmonizing project evaluation with other needs of the development process.
4. The advantages and disadvantages of project financing in the development process.
5. The economic order of priorities in the development process.

January 11, 1966

My dear d'Aroma,

I was glad to receive your letter of January 5th informing me of the decision of the Bank to become a Patron of the Society for International Development. As Treasurer of the Society I am pleased and honored at your decision.

With warm regards,

Sincerely yours,

Dr. Antonio d'Aroma
The Secretary General
Bank for International Settlements
Basle, Switzerland

January 11, 1966

My dear Anjaria,

Thank you for bringing the curriculum vitae of Dr. Guha for attention. I am happy to consider him for our outfit. I will be in touch with you about this in the near future.

Sincerely yours,

Irving S. Friedman

Mr. J. J. Anjaria
Executive Director
International Monetary Fund
Washington, D. C.

Statement for
Economic Committee Meeting
January 11, 1966

Although the Economists in the World Bank group are separated into various Departments administratively, I intend in carrying out my responsibilities for the supervision and coordination of economic activities to regard Economists, whoever they are, as members of a single Economic Staff whose professional activities I have the responsibility of at present.

Therefore, the line of authority on economic activities is from the professional Economist in a Department to his immediate supervisor to the person in charge of the economic work in the Department to Mr. Kamarck and myself.

Economic activities include the selection of economic personnel, their assignments, the fulfillment of their exercises and the review of the work done. I believe that the scope of economic activities is well stated in the description of the activities of the Economic Committee and need no further elaboration at this time.

In practice I would expect that most of the economic work would be done within the framework of the Departments to which the Economists are administratively assigned. However, the Economists must feel that they have the right of taking their problems or their differences in views with others in their own Department to those responsible for economic activities on a higher echelon and that this can be done without their being regarded as disloyal or a nuisance by the Heads of their Departments. In practice I would expect to have direct relations with the Economic Advisers or their

equivalents in the various Departments. I have no objection to the Director of the Department concerned being kept fully informed, and, indeed, this is probably advisable. However, it is up to the Directors of the Departments to decide themselves to what extent they want to be informed on economic activities.

My experience indicates that one of the principal difficulties in organizing the economic work on an efficient basis to achieve the objectives of the Bank is the conflict between the need to recognize the interrelation of economic activities wherever they take place with the fact they are administratively separated. It is possible to conceive of all the Economists being put together in one group like the Legal Department and cooperating with other Departments on this basis. I am happy to keep the division of Economists among the various Departments but only on the basis that this is for administrative purposes only and not interfere with our developing an integrated and interrelated program of work ensuring the best use possible of all the economic staff wherever it is. I feel that it is necessary that there be no ambiguity or misunderstanding on this matter. Another major difficulty is the extent to which authority is delegated within the Departments to the Senior Economists. My own preference is that the Senior Economist in each Department should have full responsibility for economic activities in his Department. However, I am not sure yet to what extent authority has been delegated by various Department Directors. I would, therefore, appreciate learning from each Department which of the economic activities have been fully delegated to the Senior Economist, and, therefore, they are

able to operate with complete authority for which the Department Director still feels he is retaining the authority. Where the Department Directors retain their authority, I will, of course, have to deal with them instead of the Economic Adviser. I believe it must be clearly understood by Directors of the Departments that whenever an economic matter requires reference to a higher echelon, that reference must be to myself no matter who in the Department is handling the economic matter. Of course, any Director of a Department just as any Economic Adviser will have the right to appeal to the President if he disagrees with my decisions.

I. G. PATEL
MINISTRY OF FINANCE
NEW DELHI

JANUARY 11, 1966

FIRST CLASS

INDIA

WISH TO EXPRESS MY DEEP REGRETS AND SORROW FOR OUR LOSS.

IRVING

Irving S. Friedman

President's

Mr. Clifford F. Owen

January 7, 1965

Irving S. Friedman

Meeting of Economic Committee

I would like to have an Economic Committee Meeting on Tuesday to have a final discussion on economic activities of the Bank. Would you please contact John Adler and tell him that we are still looking forward to having his report to the committee. Also, contact de Vries as to whether he wants to talk to me more on the make up of economic missions. I will try to give some conclusions on our review. Incidentally, as you have listened to these reviews what would you say that we have agreed to do that wasn't being done before, and what have we agreed to stop doing that has been done before? I intend to summarize my thoughts on the basis of the following outline:

- a. Principal findings - Example: personnel, need for preventative duplication of work. Need to insure knowledge of previous work, etc.
- b. Activities - On this I would like to summarize what activities we feel must go on, and what activities can be shelved for the time being.
- c. Personnel requirements - Including both need to recruit for existing vacancies and additional vacancies in the budget.
- d. Procedures for review and coordination - What changes we think ought to be made.

If you have thoughts on the above items I would, of course, be glad to have them.

Mr. A. M. Kamarck

January 6, 1966

Irving S. Friedman

Mr. Juel comes recommended highly by the Norwegian authorities. I was wondering whether he might be suited for Dave Gordon, perhaps as in the capacity of consultant or economic adviser on a term basis. Together with a relatively junior economist this might give us a strong economic team in East Africa.

I believe that Mr. Juel would also be available for missions since he is not looking for a permanent appointment. This application was given to me by Mr. Thor and I promised to pursue it. I gather it has already been brought to the attention of the administrative people.

Mr. A. M. Kamarck

January 6, 1966

Irving S. Friedman

On September 16, 1965 The Secretary circulated to the Executive Directors a statement on Bank and IDA assignments. Who is responsible for its preparation? When does the next one appear? I would like for you and me to see any proposed statement before it goes to the Board.

Mr. B. N. Jalan

January 6, 1966

Irving S. Friedman

Could you get me a copy of the testimony submitted by Secretary Fowler in August 1965 to the Balance of Payment Subcommittee of the Senate Committee on Banking and Currency? I am particularly interested in the country by country submission on how the U.S. program is helping the less developed countries.

William F. Curtin

January 7, 1965

Irving S. Friedman

Supplies

I would appreciate very much having a double pen set for my desk. My present one is lovely to look at, but quite inadequate for my working habits.

Thank you very much.

Mr. A. M. Kamarck

January 6, 1966

Irving S. Friedman

The OECD Ministers, at their Annual Meeting in November 1964, agreed that a study should be done on the ways in which the OECD could assist countries in increasing the efficiency of the capital markets and reducing restrictions. I gather that the problem has been under review by three groups of experts. They are said to be studying sources of savings, the channels of production savings and the use of savings in various countries.

Could you find out whether anything has reached a stage which would be available to us. It sounds most interesting from the viewpoint of what we are planning to do in development finance. Perhaps you could write to Karasz about this if the information is not available here.

January 5, 1966

Dear Mr. Spofford:

As you may know Mr. Woods is out of the country at the present time, and therefore, your letter has been referred to me for reply. I am sending you a copy of our study on Supplementary Finance.

You will be interested to know that Mr. Woods was invited to the inauguration of the Volta River Dam, but I am told that he has declined.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. C. M. Spofford
Davis Polk Wardwell Sunderland & Kiendl
1 Chase Manhattan Plaza
New York, New York 10005

*CC-(2) broad
Plus orig
letter from
Spofford.*

January 4, 1966

Dear Mike:

I hasten to reply to your letter of December 30 so that you can receive my note before you leave Eugene. Could you have dinner with us on January 13?

Hoping to see you soon.

Irving S. Friedman

Professor R. F. Mikesell
University of Oregon
Institute of International Studies
and Overseas Administration
Eugene, Oregon 97403

January 4, 1966

Dear Douglas:

It was very pleasant to talk to you again after all these years. I am glad that you will be able to visit with us. How long are you planning to stay? Could it be long enough for us to have a dinner party for you?

I am sending under separate cover some material which I think you might find of interest. It is hard to give an adequate description of what we are doing in the economic field in the Bank because it covers such a wide variety of things. However, I hope the material that I am sending will give you some idea.

Looking forward to seeing you and Mrs. Gibson, hopefully soon.

Sincerely yours,

Irving S. Friedman

Mr. Douglas Gibson
406 Glenayr Road
Toronto 10, Ontario

USC

ISF:lgn

January 4, 1966

Dear Mr. Taplin:

I was glad to receive your letter of December 21, 1965. Your letter arrived when I was away on holiday, so please excuse my delay replying.

I appreciate your sending me your curriculum vitae. I am discussing the question raised with others on the economic staff. You will be hearing either from them or myself in the near future.

Yours sincerely,

Irving S. Friedman

Mr. Grant B. Taplin, Economist
Federal Reserve Bank of New York
Balance of Payments Division
Thirty-Three Liberty Street
New York, New York 10045

January 4, 1966

Dear Andy:

Let me begin by wishing you and Annette a Happy New Year again. I am looking forward to seeing you on January 22. Perhaps you would come out to the house so Edna could also have the pleasure of saying hello, but I would be glad to do what ever is convenient for you.

I am enclosing a copy of our Supplementary Finance Scheme together with the press release. I don't expect that you will have time to read the monster, but perhaps you will find time to read the introduction and Chapter 1. You will find that it embodies the philosophy you advocated in the Fund, namely the tying of financial assistance to the pursuit of proper policies. I really don't think that we can expect a reduction in the amount of external assistance that most of the less developed countries will need and obtain in the coming years; I do believe that more could be used effectively. However, I think the great mistake is in the failure to insist on performance and in not being stubborn in refusing assistance when performance is inadequate. Moreover, one of the important aspects of performance ought to be the effect of the country's policies in encouraging or discouraging the inflow of private capital and the development of a private sector. I believe that the proposed scheme is the first time when performance has been suggested as an international principal and as the cornerstone for the provision of development finance. I believe that this emphasis is what explains the favorable reaction which the scheme has received in many financial quarters in Europe. I keep on trying to tell people that the only way we can really help less developed countries is by being more stubborn in insisting on performance. More and more people seem to agree with this. I hope that this is a conversion of the head as well as the heart and that we will see it applied in practice.

I would be very disappointed if anything that I advocated did not have your fullest endorsement.

With warmest regards,

yours,

Irving S. Friedman

Mr. Andrew N. Overby
Vice Chairman
First Boston Corporation
15 Broad Street
New York 5, New York

Mr. A. M. Kamarck

January 4, 1966

Irving S. Friedman

I talked to Vic Longstreet this morning. I think he could be interested in a position in the Bank, even one as a permanent consultant. He has a number of attractive alternatives, but does have some reluctance to leave Washington and public life entirely. I gave him the impression that he might be attractive to the Bank in the loan operation or project field. However, I think that he might be very helpful in building up a unit on development finance as we discussed, but did not mention it to him until you and I had a chance to discuss it. I am enclosing a copy of his curriculum vitae.

January 4, 1966

My dear Abol:

Thank you very much for remembering us at Christmas. It was most thoughtful and kind of you.

I do wonder how things have been going since we spoke last and hope that all goes well for you and Mrs. Ebtehaj. I am sending to you under separate cover a copy of our Supplementary Finance Scheme. I know how deeply interested you are in this kind of thing and hope that you will find it sensible. I believe that it reflects a philosophy in which we both agree.

Please keep me posted on how things are going and call on me if I can be of any help.

With warmest regards,

yours,

Irving S. Friedman

Mr. A. H. Ebtehaj
Iranians' Bank
Khiaban Ekbatan
Teheran, Iran