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THE WORLD BANK

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Series 5540

Irving S. Friedman Chron Files

1966

(2)



The World Bank Group
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Irving S. Friedman - Chronological File - 1966 Correspondence - Volume 2

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J-Linn

Mr. Stanley Johnson

August 31, 1966

Irving S. Friedman

ECOSOC - 41st Session - Mr. Consolo's memorandum of August 5

I would appreciate your getting together for me any of the annexes referred to in the attached memorandum.

Could you find out whether there have been any later developments since this memorandum was written or is this the latest?

Attachments(3)

On Supplier Credits --

(a) Paragraphs on neutral zone idea and why not agreed on --

(b) Could have final paragraph or paragraphs on proposed approach to the effect that proposals to meet problem by extension in time of national credit schemes causes difficulties for some (explain why briefly) -- points to possibility that international approach may be more feasible -- could suggest possibility of international approach on private banking level -- to areas of financing in which sufficient choice to importer doesn't exist -- and possibility of doing this by combining features of existing national credit and insurance schemes with additional new financing arrangements on private level (Study should have earlier made clear advantages of greater role by private banking).

August 16, 1966

My dear Mr. Ambassador,

Your very kind gift of the Coronas de la Alhambra to Mr. Irving S. Friedman, the Economic Adviser to the President, has been received in his absence.

I am sure Mr. Friedman will be most pleased and will be writing to you himself on his return to the Bank the first part of September.

Sincerely yours,

(Mrs.) Helyn Sparks
Secy. to Mr. Friedman

His Excellency
Benjamin Romualdez
Ambassador Extraordinary and Plenipotentiary
Republic of the Philippines
Washington, D. C.

Pending

August 8, 1966

Dear Mr. Dell,

This is to acknowledge receipt of
your letter of August 3.

Mr. Friedman is on vacation for the
month of August, and your letter will be
brought to his attention on his return.

Yours sincerely,

D. McGregor
Secretary

Mr. W.R. Dell
Editor
Britannica Book of the Year
Encyclopaedia Britannica
425 North Michigan Avenue
Chicago 11, Ill.

DAL

July 30, 1966

Dear Willard,

I was asked to send comments on the accuracy of your draft Report, to the extent it deals with the World Bank, and I trust the attached comments will be of use.

With best wishes,

Yours sincerely,

Irving S. Friedman

Mr. Willard L. Thorp
Chairman
Development Assistance Committee
OECD
2, rue Andre-Pascal
Paris - XVIe

COMMENTS ON DAC CHAIRMAN'S DRAFT REPORT 1966

Page 26, line 5 from top of page:

"The decline in IDA commitments in 1965 may reflect the approaching exhaustion of funds committed to its use."

This is inconsistent with Mr. Woods's recent memo to IDA Part I members which says:

"The rate of annual commitments, which reached a peak of \$309 million in the fiscal year of 1964-65, slowed somewhat in 1965-66 to \$284 million, partly because of the interruptions mentioned above (the India-Pakistan hostilities), and partly because a number of credit proposals under active negotiation, though close to completion, were not finalized before the end of the fiscal year on June 30, 1966."

The language of the Chairman's report could be revised in line with Mr. Woods's memorandum.

Page 51, line 2 from top of page:

"However, it remains unclear exactly what this estimate is supposed to measure. It does not appear that there are projects and programmes ready to utilize this added amount in actual existence. Therefore, it must be related to some sort of absorptive capacity concept. Since it is probably true that at some point, the law of diminishing returns sets in for assistance, one can only estimate roughly some limiting point where assistance is no longer of sufficient value to justify its provision. The IBRD economists are used to thinking in terms of fairly high standards of economic justification for external assistance but "effective use" may be at some lower point."

This section is factually inaccurate and needs redrafting; perhaps it might be best simply to delete.

Page 53, line 14 from top of page:

"The IBRD apparently has difficulties in staffing its 'studies in depth' of various countries, over and above its more routine economic work."

This sentence might be omitted or revised.

Page 80, first 6 lines of third paragraph:

"Debt service liabilities (interest and amortization) on public and publicly guaranteed debt for the same group of 40 countries are estimated to have been \$2.7 billion in 1965, about the same amount as in 1964. The lack of increase is presumably due to more favourable terms on new loans and various arrangements for rescheduling."

This is not consistent with World Bank data for a wider range of 96 developing countries, which show a sharp increase of debt service payments from \$3.3 billion in 1964 to \$4.3 billion in 1965. (These figures are shown in the attached table to be published in our Annual Report.) The paragraph could be redrafted on the basis of the attached table.

Page 111, 20th line from bottom of page:

"Still another uncertainty with respect to future requirements relates to the increasing role of the multilateral agencies, since their present level of new commitments now exceeds the supply of new funds currently available to them."

This sentence might leave the reader with an impression that the multilateral institutions have actually made commitments in excess of funds available to them. This, of course, is not the case, as is rightly stated at an earlier part of the Chairman's Report. The sentence could be deleted or reworded to read that future commitments may be constrained by the availability of funds, if their resources are not replenished.

MISC

Mr. Kamarck

July 29, 1966

Irving S. Friedman

FORTUNE Magazine

Mr. Warren Wilhelm was in to see me today. He is writing an article for FORTUNE on development. Among other things he would like a list of books for FORTUNE readers to read -- nothing too specialized. I said we could get together a list of about 20 titles of varied authors, none too specialized. I made clear it was not a list we would regard as good books but it would be worthwhile for FORTUNE readers.

After you have done this would you send it to Mrs. Edith Roper, who seems to be a member of the FORTUNE staff helping with this article.

Pending
(the E.D.s)

Mr. Fowler

July 29, 1966

Irving S. Friedman

Proposed Meeting with EDs on Economic Research

With reference to your memorandum of July 29, I think it would be a good idea to schedule this meeting for the first or second week after the Governors' Conference if this isn't too late.

cc

Mr. Owen

July 29, 1966

Irving S. Friedman

El Salvador

I have agreed the El Salvador minutes with Mr. Alter. I don't know whether you need exact wording now or if it can wait until I return. If you do need the exact words please contact Mr. Alter and follow his guidance.

CYN - Schiller

Mr. Johnson

July 29, 1966

Irving S. Friedman

Sorry I have not had a chance to see you before going on leave, but I have been as busy as -----.

On the travel suggestion I think going to New York might give people there the impression that we were further along with this than we are -- similarly going to the Tennessee Valley at this time.

How about taking some time off in my absence?

July 29, 1966

Personal

Dear Burke,

I had intended to ask you this morning but in view of the rush I couldn't, I would appreciate very much your calling Goodman on the Indonesia thing.

Irving

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WBG ARCHIVES

Mr. Kalmanoff

July 27, 1966

Irving S. Friedman

Draft on Suppliers' Credits - Mr. Christoffersen

I have not had the time to read carefully Mr. Christoffersen's draft, however, I do know what I want is a survey of what has happened in these countries and not have the appendix be the source of recommendations on what to do about the problems. This may or may not be a fair comment but I register it because of the comments made by Mr. McDiarmid in his memorandum to you of July 25.

If there are any useful ideas in the Christoffersen draft on the general problem they should be incorporated into Part I which you are drafting, leaving his appendix to be a purely factual account.

cc: Mr. Nespoulos Neville
Mr. Tamagna
Mr. Halley

CB

July 27, 1966

Dear Drag,

Apropos your memorandum of July 25 --
before taking any further action on the
Nigerian Debt Study I would like to talk
to you about a number of related matters.
Perhaps we could do it on Thursday or
Friday -- my secretary will contact yours
for a mutually convenient time.

Irving S. Friedman

A-1 - (Lundman)

Mr. Sundrum

July 27, 1966

Irving S. Friedman

I would like to distribute, at least to the Economic Committee, copies of your article from the Malayan Economic Review. If you do not have enough copies I am sure we could probably have them copied here.

Mr. J. Polak

July 28, 1966

Irving S. Friedman

Supplementary Financial Measures

1. The draft paper prepared by the staff of the Fund on the Bank's study raises several points which have been dealt with, perhaps not fully or adequately, in the Bank study itself. The memo attached hereto has been prepared by Mr. Sarma, in consultation with others here, to clear up some of the misunderstandings in the paper. It also raises one or two substantive points.
2. The Fund paper points out that difficulties are likely to arise if the Compensatory Financing Facility of the Fund and the Supplementary Financing Scheme were to operate concurrently and separately, and underscores the need for a high degree of coordination, but offers no suggestions for resolving such difficulties. We, on our part, have been fully cognizant of the need for understanding and coordination, and would welcome suggestions for any modification of the Supplementary Financing Scheme to this end. For instance, the suggestion regarding refinancing of Fund repurchases could be explicitly incorporated as a feature of the Supplementary Financing Scheme, with advantage. It would also be useful to recognize that each financing institution involved will necessarily apply its own performance criteria and that the mutual relationships among the various institutions in implementation of policies towards recipient countries should be carefully coordinated. Differences may well arise from time to time among these institutions, which would need to be resolved by mutual consultation and discussion.
3. The Bank study has not stated which Agency would administer the Scheme. This remains an open question. It is possible that the Fund may experience some difficulty at times in regard to its own compensatory financing operations as well as other functions in reconciling its own approach and criteria with those of the Agency. Similarly, the Bank, too, may have from time to time cause for concern with the Agency's criteria. If anything, being concerned more deeply with the longer term development finance questions, the Bank is likely to have even more frequent difficulties than the Fund. As and when such problems arise, it should, however, be possible to meet them through consultations, as in practice, we now resolve difficulties between the Fund and Bank.
4. The Fund paper states (p.18) that Fund resources are available to members to meet balance of payments disequilibria, including "irregularities in the supply of capital or in the need for imports," and that the Fund will "assuming these understandings are satisfactory, assist the country to continue its developmental imports until the payments difficulties have been overcome." I would be interested in discussing the full implications of these remarks both for the work of the Fund and for any Supplementary Financing Scheme that may be set up.
5. I hope that we can get together tomorrow for further discussion of these and other aspects.

Attachment

Mr. J. Polak

July 28, 1966

Irving S. Friedman

Supplementary Financial Measures

1. The draft paper prepared by the staff of the Fund on the Bank's study raises several points which have been dealt with, perhaps not fully or adequately, in the Bank study itself. The memo attached hereto has been prepared by Mr. Sarma, in consultation with others here, to clear up some of the misunderstandings in the paper. It also raises one or two substantive points.
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5. I hope that we can get together tomorrow for further discussion of these and other aspects.

Attachment

SUPPLEMENTARY FINANCING AND THE FUND

1. There are two main areas in the Fund staff paper that need to be considered: (1) the interpretation of what the Bank study purports to say, and (2) their approach to the substance of supplementary financing itself. The following paragraphs are addressed mainly to the first of these, and are intended to correct some of the misunderstandings of the Supplementary Financial Measures Scheme involved in the Fund staff paper.
2. The following statements express the concern of the Fund staff: "These problems (in reconciling) relate to the Fund's activity as a whole, including its regulatory and consultative functions as well as its financing functions" (p. 11). "Unless the Agency and the Fund were able to achieve a reconciliation in their criteria and policies, undesirable consequences could easily arise a member, in dealing with a given export shortfall, might well receive disparate advice from the two international organizations" (p. 12). "At the very least, there would be need for a very high degree of coordination between the prescriptions of the Agency - or of the Bank - with respect to appropriate development policies and the prescriptions of the Fund with respect to appropriate balance of payments adjustment policies the marriage of minds may not be easily arrived at" (p. 13). "It is the residual financing which is in a sense decisive for the policy to be followed by a country, and it is for this reason that the Fund, as the international agency bearing primary responsibility in the sphere of balance of payments equilibration, has normally itself played the role of residual financier" (p. 17).
3. The Bank study is predicated on "close collaboration" with the work done by the Bank, Fund and other international agencies. A 'high degree of coordination' is to be normally expected between the prescriptions of the Agency, the Fund, and the Bank. Such coordination is necessary and possible. Broadly, the functions of the Fund, Agency, and the Bank are not identical though they all form parts of the same canvas; at times the approaches may differ. However, it should be possible to arrive at mutually satisfactory working arrangements in dealing with practical problems.
4. The Fund paper points out (p. 4) that the nature of the export shortfalls to be financed by the Fund Compensatory Financing Facility and by the Supplementary Financing Scheme may differ. This is true, as the Supplementary Financing Scheme tries to estimate future export eventualities over a planning period on which a developing country can rely for making its development plans, while the Fund's Compensatory Financing Facility tries to estimate a trend value, based on past experience and projections for two future years only. Differences in the projections would naturally arise because they are being made for different purposes. In fact, it is because of the need to meet these different purposes that the UNCTAD resolution proposed a new scheme, in addition to the Fund's Compensatory Financing Facility. Therefore, the fact that the export projections may differ is not necessarily an argument against the simultaneous operation of two such schemes.
5. At several points, the Fund paper seems to view the Bank scheme as impractical and rigid; here, there is some misunderstanding which has to be corrected. A few of the more important references may be noted:

- a) "The emphasis on 'programs' is important. While 'development' is a continuous and continuously adjusted process, 'development programs', partly for reasons of publicity and legislative convenience, are made at discrete intervals covering a number of years at a time, and their frequent adjustment is difficult." (Fund paper, p. 3).

"Moreover, it would appear that revisions in export expectations and in development plans and policies would be of somewhat infrequent occurrence." (Fund paper, p. 9).

The Bank study recognizes the need for consultations at appropriate intervals (p. 10), and even speaks of a rolling plan, i.e. one that is revised every 2 or 3 years, each time for 3 or 4 years ahead (p. 43).

Further, the Fund paper argues that adjustment processes should begin as soon as a disequilibrium in balance of payments is identified or recognized as such. This may be desirable but is often difficult for a country to undertake, as it might disrupt its development program, which is conceived over a medium term. The Supplementary Financing Scheme is an attempt to help a country to adjust to changes without disruption of development program.

- b) "The aim of this (Fund) facility is to keep export availabilities as close as possible to the medium-term trend of export receipts, as currently estimated. The scheme presented in the Study, on the other hand, aims at providing countries with export availabilities that are related to levels largely determined one to five years in advance, and though there is provision for annual consultations in which the country could be urged to hew to some more realistic line, it is not clear that a country reluctant to adopt this advice could be faulted or denied its right to export availabilities on the scale originally envisaged. Again, while the Fund lays emphasis on smoothness and continuity of adjustment, the Study lays greater emphasis on fulfilment of predetermined programs. Perhaps the Fund approach could be criticized for taking too little account of the time lag required for the adjustment of development programs to emergent realities, and that of the Study for laying too much emphasis on long-term forecasts in the balance of payments field and too little emphasis on the dangers of persistence in adhering to a development plan which export developments have shown not to be permanently sustainable." (Fund paper, p. 14).

It is stated in the Bank study: "The exact content of the policy package would depend on circumstances in a country, but of central importance would be the government's commitment to good performance in the pursuit of sound policies for development In order to make the policy package feasible, it should not be too detailed, but should include the major criteria and policies (p. 9). The policy package would not be frozen at the time of the initial consultation. Economic policies require revisions in response to changing circumstances This consideration underscores the necessity for consultation at appropriate intervals (p. 10). This flexibility would have to be reflected in the content of the policy

package itself and in judging whether a country had adhered to it Experience indicates that economic performance in relation to development can be judged correctly even when precision is technically impossible" (p. 49).

The Bank study clearly points out that under certain circumstances a country could be faulted: "In case a member were not living up to agreed policies, it would be informed by the Agency that it would no longer be entitled under the scheme to assistance in case of subsequent shortfalls" (p. 12).

6. It is observed in the Fund staff study at p. 15: "Differences of approach between the Fund and the Agency as to the policy aims to be negotiated with member countries are likely to involve differences in character of the negotiations themselves. Even if the policy package, which is the central feature of the Supplementary Financing Scheme, were entrusted entirely to the Fund, so far as balance of payments policies are concerned, it is difficult to see how the Fund could commit itself to quantitative precision regarding the financial and exchange policies required to implement balance of payments projections over a five-year period, or could make advance prescriptions as to the appropriate method of adjustment in the face of any of the thousand and one events that might tend to falsify the projections."

This is clearly a misunderstanding of the scheme proposed in the Bank study. The Bank study at the very outset says: "The precise nature and degree of detail of such an understanding would vary considerably as among countries. Continuing contact would be maintained, moreover, between the administering Agency and the country throughout the plan period in order to provide the basis for an assessment of the extent to which the agreed criteria of performance were currently being fulfilled or needed adjustment in the light of changing circumstances." (p. 4).

7. The scheme proposed by Bank staff is only an outline and it is quite possible that it may have to be modified during further discussions with Fund staff, in the intergovernmental group set up by Trade and Development Board of UNCTAD and in the course of deliberations by individual governments. For instance, it would be useful to state explicitly that Fund repurchases of any type of drawing be added to the amounts to be financed under the supplementary financing scheme, a suggestion made in the Fund staff study. The nature and content of policy package, and the degree of its operational feasibility, would have to be carefully gone over. There would be scope for further elaboration and precision. But, above all, the Bank study concurs with the UNCTAD view that there is a felt need for supplementary financing. This is the substance of the matter on which the Fund staff paper does not take a view.

July 28

Mr. Frank	1056
Mr. Sarma	1036
Mr. Macone	G-1038

Supplementary Financing and the Fund

The attached papers have been sent to the relevant people in the Fund. I should like to have a meeting in my office tomorrow afternoon at 4:30.

Irving S. Friedman

July 28, 1966

Mr. Polak

Mr. Fleming

Mr. Gold

Mr. Finch

F-504

F-904

F-834

Supplementary Financing and the Fund

Attached are papers relevant to the above. I should like to have a meeting in my office at 4:30 tomorrow afternoon if convenient with you.

Irving S. Friedman

Mr. Hoffman

July 28, 1966

Irving S. Friedman

Senator Symington's speech

U.S. Balance of Payments

1. The IBRD has been a large positive contributor to the U.S. balance of payments almost every year. During the five fiscal years from 1961 through 1965, the favorable effect averaged in the range of \$150 million a year. This estimate takes account of bond issues, less retirements, net long-term investments in the U.S., interest and administrative expenses, as well as procurement in the U.S. under IBRD financing.
2. IDA, on the other hand, has had a small negative effect on the U.S. balance of payments. During the same five years, which were its first five years of operations, the negative impact rose gradually; it is currently running in the range of \$30 million a year.
3. If the large positive effect of IBRD is combined with the small negative effect of IDA, there is a net positive effect averaging more than \$100 million a year.
4. The operations of IDA could be increased very substantially before the negative effect would match the positive effect of IBRD.
5. There is little ground for pessimism about the U.S. share of earnings from IBRD-financed procurement. From the 1965 low of 21 per cent, the percentage recovered to 27.5 per cent in the first six months of fiscal 1966; this was only 2 points below the average for the preceding seven years.
6. It is untrue "that the present management of the Bank has little concern for the current fiscal and monetary problems of the United States." The opposite is the case. Considerable staff time has been devoted to analyzing and considering the effects of IBRD and IDA on the U.S. balance of payments, both actual in the past and potential in the future. We have devised means to minimize those effects which are compatible with the sound management of these institutions. Proceeds of recent IBRD bond issues in the U.S. have been invested in the U.S. so as to reduce effects; this procedure was followed for this year's issue of \$175 million. Similar investments of IDA reserves are made to counteract the effect of IDA cash drawings on the U.S. contribution.
7. For the Bank to reduce its commitments to less developed countries, it would not be "comparable to the request by this Administration to private investors in connection with the voluntary restraint program." The Guidelines for that program contain a specific exemption for long-term credits in these countries.
8. The President of the World Bank has emphasized the need to raise more of the capital in Europe and is making every effort to do so.

Comparative Demand on U.S. Resources

9. Among 15 creditor countries, the U.S. is estimated to be close to the average in the proportion of national income devoted to less developed countries. According to data prepared by the Organization for Economic Cooperation and Development, the flow of public and private financial resources from these countries to LDCs, net of debt amortization, averaged 1 per cent of national income in calendar 1965. The U.S. figure was just under 1 per cent. Percentages higher than 1 per cent came from Belgium, France, Holland, Portugal and the United Kingdom. In assessing the relative burden, it should be recalled that per capita income in the U.S. is substantially higher than in the other countries mentioned. It could be argued on grounds of equity, that the U.S. percentage should therefore be higher, not lower, than theirs.

10. It is not right that "only the United States appears willing to provide this soft loan aid on any substantial scale." Among the 15 creditor countries, according to OECD data, the U.S. is close to average, both in percentage of grants in total commitments of official aid, and in percentage of grants plus concessional loans in the same total. Countries with higher proportions than average on both counts include Australia, Belgium, Norway and Sweden.

11. The majority of IBRD borrowings and of contributions to IDA have come from outside the U.S. These organizations mobilize financial resources from countries and citizens outside of the United States and therefore all of their loans and credits include a large portion of non-U.S. financial resources.

Advantages and Disadvantages of Multilateralism

12. The advantages of multilateral as against bilateral aid have been advocated in the press, in political circles and elsewhere, but not by Mr. Woods.

13. It is wrong, however, to suggest that IBRD/IDA lending is subject to pitfalls of lack of control of funds. Control by these agencies is generally regarded as very rigorous to the point of complaint by these borrowers.

14. There is shared control of management and this precludes the control by one creditor, such as the U.S. However, the records do not show that a single case in which the U.S. has ever been dissatisfied with a IBRD/IDA operation.

15. There is no evidence that the World Bank loans need IDA credits to meet repayments. Disbursements in World Bank borrowing countries are consistently higher than amortization payments to the World Bank. IDA and other "soft" sources of funds do help indirectly to meet servicing of private debt and dividend payments, but this is highly desirable. The World Bank does everything it can to support and encourage private investment.

16. Recommendations to soften the terms of assistance are primarily directed toward facilitating the development process; if the charges on aid are reduced, more resources are freed for investment.

SID

July 27, 1966

Dear Mr. Givens,

I have sent on your letter of July 25 to Mr. Donovan, who is in charge of our office space.

I enjoyed our chat the other day, and hope that satisfactory arrangements can be worked out for a suitable meeting place for the Washington Chapter. I will write to you on this when I have gotten the reaction of our Administrative people.

Yours sincerely,

Irving S. Friedman

Mr. Meredith B. Givens
President, Washington SID
Society for International Development
1346 Connecticut Avenue, N. W.
Washington, D. C. 20036

SID

Mr. Edward J. Donovan

July 27, 1966

Irving S. Friedman

Society for International Development

Could the Bank, as a Patron of SID, make a room available once a month for the Washington Chapter meetings? Please see the attached letter.

I, of course, regard the SID as a special institution for us; among other things, the World Bank is one of its Patrons.

Attachment

~~SECRET~~
A-2

July 27, 1966

My dear Shoaib,

This is to acknowledge your letter of July 13 and your request that I release Mrs. Sparks to be your secretary.

As you mentioned, it will, of course, cause inconvenience in my office. The work is technical and considerable time is required to become familiar with its duties which brings me to the conclusion that I cannot release her until a suitable replacement is found. However, I will ask Personnel to send a list of possible substitutes, and trust that it can be worked out satisfactorily.

Looking forward to seeing you in September,

Sincerely yours,

Irving S. Friedman

Mr. Mohammad Shoaib, H.Pk.
14, Civil Lines
Rawalpindi, West Pakistan

AR

Mr. Doucet

July 25, 1966

Irving S. Friedman

1966-Bank/IDA Annual Report - Mr. Woods's Statement

Attached is a copy of a memorandum I have just sent to Mr. Kochav.
If it is not clear, I would be glad to discuss it further with you.

Attachment

AR

Mr. Kochav

July 25, 1966

Irving S. Friedman

1966 Bank/IDA Annual Report - Mr. Woods's Statement

I would have the Secretary also put up the paragraph to Mr. Woods for decision. My own preference would be for him not to say anything until after the Board Meeting thus giving the Executive Directors a chance to react.

DAC

Mr. Kochav

July 25, 1966

Irving S. Friedman

DAC Annual Report

The other day I promised that we would send today or tomorrow to the DAC people any suggested changes in their Annual Report. I would, of course, limit any changes to what we thought were factually inaccuracies, particularly about the Bank, for example, our difficulty in staffing, depth missions.

I am afraid I have given a marked up copy to someone, perhaps Hulley or Nespoulos Neuville. You may wish to recover it at least temporarily to do this job. Thank you.

Please let me know before the end of the day what changes in our Annual Report you propose to make and who has suggested these changes.

P-1

1999 ARCHIVE

July 22, 1966

Dear Mrs. Sherrard,

Thank you very much for the copy of Gardner Patterson's book *Discrimination in International Trade, The Policy Issues, 1945-1965*, which I will be glad to bring to the attention of my colleagues.

Knowing Mr. Patterson I am sure that this is a valuable study.

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

Mrs. Peter Sherrard
Promotion Department
Princeton University Press
Princeton
New Jersey 08540

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CONFIDENTIAL

Mr. Woods

AUG 16 2023

July 19, 1966

Irving S. Friedman

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Some Aspects of Tied Aid

It may be that some of the representatives to the DAC meeting will have not only read your memorandum but also some of the newspapers' comments on the IDA proposal. Some of these indicate the possibility of the use of tied aid in this connection. Against the contingency that some may discuss this point with you informally, I thought it might be useful to set down quickly some thoughts -- however rough -- which we have exchanged in the past on the question of tied aid and balance of payments.

It will be noted that the essential point made below is the difference between the problem of aid tying when a country is experiencing full employment conditions and when it is experiencing something less than full employment conditions. Perhaps it is unnecessary to say that for countries which are not concerned with a deterioration in their balance of payments, for example, because of a very strong reserve position, this problem simply does not arise or if it does, it is only a minor element in policy formation.

1. Tied aid, even assuming 100 per cent effectiveness, means providing goods or services abroad without corresponding payments or inflows of cash. In the 1950's the outstanding example of this was the use by certain countries, particularly India, Pakistan and the United Arab Republic, of the sterling balances which they had accumulated during World War II -- so-called "unrequited exports". The use of the sterling balances by these countries improved the international capital position of the United Kingdom in that this usage meant a decline in the U.K. net liabilities to these countries, but since the U.K. need was for cash income in foreign exchange, this improvement in the U.K.'s net international capital position was only of small comfort. The United States provided a large amount of resources under the Marshall Plan and other aid programs, but until the latter part of the 1950's it was not concerned with the fact that this meant a reduction in its holdings of gold and indeed, at the time it was welcomed as a desirable redistribution of gold holdings in favor of industrialized countries with weak monetary reserve positions.

2. Whether or not a country is experiencing full employment, if the exports financed by tied aid could have been sold for cash, then the tied aid represents no balance of payments savings whatsoever. However, this case rarely arises.

3. If a country is not experiencing full employment then tied aid will probably not be a burden on the balance of payments. It may be assumed that tied exports could not have been exported for cash and that the factors of production would have anyway remained idle.

4. In practice what we have today is virtually full employment conditions in all of the industrialized countries. Under these conditions the tied aid argument really does not make economic sense except in the very short run. The resources used for tied or untied aid mean less resources for domestic consumption or to produce exports saleable for cash. The market for such exports exists, particularly in the industrialized countries. A sensible

foreign aid program, whether tied or untied, will provide the budgetary (taxation) and monetary policy which frees the domestic resources used in aid programmes without resorting to inflation. Fortunately, the foreign aid is a small portion of the total resources involved and we are not talking here of major changes in fiscal or monetary policy. Foreign aid is one of the relatively less important factors making for excessive demand in the many countries. Thus tying aid does not help the budgetary or balance of payments problem. It remains only an export promotion scheme. This point, I believe, is defensible, no matter how deeply it is probed.

5. As you know, in United States aid circles some very good economists have used the tied aid argument as a means of defending their foreign aid programs. For some of these it is an argument which they feel makes their programs more acceptable to the U.S. Congress. For others there has been the question of whether we had a fully employed economy. It now seems to be a general consensus that we are in a full employment period.

Some Aspects of Tied Aid

I thought it might be useful to set down some of the thoughts which we have exchanged on the question of tied aid and the balance of payments. I am, of course, thinking particularly of the balance of payments of the United States, but the points made are of more general ^{applicability} verifiability. The reason I am making the points is my conviction that as the debate on our proposed replenishment of IDA continues, there is bound to be a more penetrating consideration of the question of tied aid, both within governments and outside of governments. Moreover, more and more in informal and formal conversations, our senior officers are going to be asked what they think about the problem and I believe that they should be guided by the following analysis in which I have tried to give the essential features of the economic considerations of the relation between tied aid and the balance of payments. It will be noted that the essential point is the difference between the problem of aid tying when a country is experiencing full employment conditions and when it is experiencing something less than full employment conditions. Perhaps it is needless to say that for countries who are not concerned with a deterioration in their balance of payments, perhaps, for example, because of a very strong reserve position, this problem simply does not arise or if it does, it is made a minor element in policy formation.

1. Tied aid, even assuming 100 per cent effectiveness, means providing goods or services abroad without corresponding payments or inflows of cash. In the 1950's the outstanding example of this was the use by certain countries, particularly India, Pakistan and the United Arab Republic, of the sterling balances which they had accumulated during World War II. The use of the sterling balances by these countries improved the international capital position of the United Kingdom in that this useage meant a decline in the U.K. net liabilities to these countries, but since the U.K. need was for cash income

in foreign exchange, this improvement in their net international capital position was only of small comfort. The United States provided a larger amount of resources under the Marshall Plan and aid programs, but until the very end of the 1950's it was not concerned with the fact that this meant a reduction in its holdings of gold and indeed, at the time it was welcomed as a desirable redistribution of gold holdings in favor of countries with weak monetary reserve positions.

2. Whether or not a country is experiencing full employment, if the exports financed by tied aid could have been sold for cash, then the tied aid represents no balance of payments savings whatsoever. However, as a matter of fact this case rarely arises, because ~~of~~^{to} some extent at least it is reasonable to assume that the exports would not have taken place without the tied aid.

3. If a country is not experiencing full employment then tied aid will probably not be a serious burden on the balance of payments to the extent that the goods sold abroad would not otherwise have been sold. Even in this case the exports increased the income of the entire country and thereby increased the demand for imports. But at least in the United States this resulting increase in imports tends to be a very small increase in income. For other countries there would be the problem of the import content of exports which in the U.S. tends to be small but ~~may~~ in countries like the Netherlands and the United Kingdom, tends to be rather high. Therefore outside of the United States, even under less than full employment conditions, tied aid is looked upon as burdensome to the balance of payments, particularly when the country is experiencing balance of payments difficulties -- though less burdensome than untied aid.

4. It is sometimes argued that tied exports would in any case not have been sold abroad. This might very well be true, however, I think the same commodities might have been sold domestically, releasing other goods for

export or if there is no such domestic market for these commodities, there would then have been no domestic production and the factors of production used (labor and capital) would have produced other goods and thereby increase the export capacity of the country. Therefore, tied aid is only helpful -- and then, as seen above, only in part -- to the balance of payments when the exports involved are produced by otherwise idle factors of production. In practice what we have today is virtually full employment conditions in all of the industrialized countries. Under these conditions the tied aid argument really does not make economic sense except in the very short run. The resources used for tied aid mean less resources for domestic consumption or export. Thus, it becomes an essential part of a sensible foreign aid program, whether tied or untied, to provide the budgetary and monetary policy which releases the domestic resources necessary without resorting to inflation. Fortunately, the foreign aid is such a small portion of the total resources involved that we are not talking here of major changes in fiscal or monetary policy, but rather one of the relatively less important factors making for excessive demand in the many countries. This point, I believe, is defensible, no matter how deep we probe.

5. However, we ourselves have used the argument that in considering the balance of payments impact of IDA operations we need only be concerned with the difference between what Part I country contributions to IDA and what is spent in the country in certain "feedbacks". I believe that in the magnitudes we have been talking, for IDA this is a practical argument, particularly because of the manner in which the United States technicians and officials tend to evaluate the balance of payments difficulties and the manner in which they try to achieve so-called balance. Moreover, the use of this "practical argument" for IDA replenishment is more expendable than in most debates in the economies of tied aid, because the use of the monies is so far in the future that it is simply impossible to say whether or not

full employment conditions or balance of payments difficulties will prevail at the time.

6. It might then be asked why I am making the point in this memorandum at this time. It is essential to clarify our thinking that when talking to governmental economists and policy makers, particularly central bankers, who are concerned with both the inflation and the balance of payments problem as it now exists, it is important not to give them the impression that we feel that the tied aid argument means they are problems. It is true that our basic opposition to tied aid is our belief in international competitive bidding. However, to the policy makers, particularly the central bankers, this may not be as persuasive an argument against tied aid at this time as their concern with inflation. They, of course, will recognize that by 1970 the problem of inflation might not exist in their countries, but the pre-occupation with this problem is getting stronger every day in Europe and it is not to be expected that the officials dealing with the IDA replenishment proposal will be able to divorce themselves from their current concern, even though individually they recognize the difference between the short-run situation and what may prevail after three to five years.

7. It will be noted that in foreign aid circles very good economists use the tied aid argument as a means of defending the foreign aid programs. From my conversations in dealing with such economists, I would say that it is not through a lack of understanding of the economists of the problem or what difference with the analysis presented in this memorandum, it is rather that legislatures have become unaccustomed to accepting the tied aid basis which originated in a time of considerably less than full employment conditions. It is easier to continue with this argument than to try to re-educate legislators on a rather sophisticated and subtle point of economic analysis and policy making. This is also the reason why I believe we in the Bank should not be making the above point in public speeches, articles, etc.

The decision on IDA replenishment will be made in a relatively short period of time. We could not hope to re-educate critical people on this during the coming year. However, as said before, we may find that a deepening understanding and sympathy for the Bank's reluctance to accept tying, will be forthcoming from the financial authorities, particularly in Western Europe. If in our private conversations with such people we keep in mind the economics of the aid tying problem, even though in more public documents we go along with the more conventional thinking on this subject accepted in political circles.

Messrs. Jalan and Pereira Lira

July 19, 1966

Irving S. Friedman

Supplementary Finance Study

With reference to your memorandum of June 29, Supplementary Finance Study, last paragraph, please send copies of this document to others in the group.

Mr. Dana E. Brantley

July 18, 1966

Irving S. Friedman

1966 - Annual Meetings - Special Guests

I am sorry I did not succeed on this. Walter ought to know that we both tried.

Enclosure

Mendels memo of June 30 to ISF re Special Guests - Mr. Walter Lochheim
...feelobliged to limit number of invited guests."

July 18

Mr. de Vries

800

Please note and comment.

Irving S. Friedman

Mr. Woods's note on EC/M/66-32 - Meeting on Technical Assistance Reports for Consultative Groups.

Mr. C. F. Owen

July 18, 1966

Irving S. Friedman

Forecasts of Economic Missions

On your forecasts of economic missions I think your summary could be very useful. However, it should make clear what we mean by commitment -- to whom and by whom have commitments been made?

Mr. Michael L. Hoffman

July 18, 1966

Irving S. Friedman

ECOSOC

I read with interest your July 14th memorandum on ECOSOC. I passed it on to Maiss and others who see about our statistical calculations particularly with respect to paragraph 5.

cc: Mr. de Vries; Would you kindly distribute it to those in the Economics
Department that might be interested?

ce

Mr. Sturc

July 18, 1966

Irving S. Friedman

Indian Liberalization after Revaluation

Thank you for your memorandum on Indian liberalization of July 15. I am sending it to others in the Bank interested in the matter. The information seems to be about the same as our own but I will send on to you any comments which others may have.

I do, of course, agree on the importance of the subject and hope that nothing will prevent the Indians from going ahead along the lines originally agreed.

Thanks again.

C+N - Shenoy

July 15, 1966

My dear Shenoy,

I am sorry not to have thanked you earlier for your letter of June 18. I have been just swamped with work here but it continues to be enjoyable.

I do hope that you will send me any study you may have made, or will make, on the effects of the devaluation.

With warm regards,

Yours sincerely,

Irving S. Friedman

Dr. B.R. Shenoy
Director and Professor of Economics
University School of Social Sciences
Gujarat University
Ahmedabad-9
India

UW - General

July 15, 1966

Dear Mr. Singer,

I am sorry for the delay in replying to your letter of April 18 last on your suggestion that the World Bank call a meeting or symposium on project vs. nonproject aid.

We have had various meetings on the matter during the interim, and although the subject is of importance to the Bank, it would be difficult for us to find the time needed in calling a symposium or meeting on it.

With many thanks for your letter,

Yours sincerely,

Irving S. Friedman

Mr. H. W. Singer
United Nations
New York

MISC

July 15, 1966

Dear Mr. Walls,

I promised in my letter of June 2, 1966 to let you know if any of my colleagues would be able to participate in your lecture-seminar.

It now seems fairly definite that none of our people will be able to attend this year, but perhaps we could participate at some future time when the subjects are somewhat closer to our concerns. I do thank you for letting us know about it.

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

Mr. Merchante E. Walls
Special Programs Coordinator
Hudson Institute
Quaker Ridge Road
Harmon-on-Hudson
New York, 10520

C4N - Tainsh

Mr. S. Takahashi

July 15, 1966

Irving S. Friedman

I would appreciate very much having your views on the ideas of Mr. Ramsay Tainsh. I know that he is considered kind of a "crackpot" by some, but he strikes me more as an enthusiast and an advocate.

What I would very much appreciate having is your expert judgment on the technical validity on his concern and his suggestions.

(Tainsh file attached)

July 15, 1966

Dear Mr. Tainsh,

I have sent your article "The World's Best Kept Banking Secret" to our Information Department and asked them to see what they can do about placing it.

Last week I had occasion to meet with a Mr. Willem Holst, who is a vice president of Esso Standard Eastern Inc. I believe that Esso Standard Eastern is concerned with similar interests in the Far East and Asia. I was seeing him in his capacity as a member of the India Committee of the Business Council for International Understanding. This is a group of American businessmen with a keen interest in Indian affairs. Mr. Holst was expressing a preoccupation with the same kind of problems which you have been thinking and urging people to consider. I told him about your work and sent him copies of the material you gave to me.

I am continuing to spread your ideas within the World Bank family!

With warmest regards to you and the Rooths,

Yours sincerely,

Irving S. Friedman

Mr. A.R. Tainsh
Ostermalmsgatan 61
Stockholm O
Sweden

cc: Mr. Grenfell

~~Mr. Bell~~

Jainst

Mr. B. Bell

July 15, 1966

Irving S. Friedman

Mr. Willem Holst - BCIU India Committee

The attached letter was left with me as a draft by Mr. Holst. He is very much concerned that the full cost of the multilateral program would be under estimated. He is very much in favor of increased fertilizer production in India, but points to the accompanying cost, which would increase transportation, water, etc.

I did not express any views to him but pointed to the work of your mission and said that I would bring his thoughts and suggestions to your attention and others concerned.

I would appreciate it if you would involve any others as you see fit, and if deemed wise prepare some kind of communication from you or me to Mr. Holst.

Attachment

VAR

Mr. Fontein

July 15, 1966

Irving S. Friedman

United Arab Republic

Thank you for sending me a copy of your note to Mr. Woods of July 11.

Paragraph 5 is now quite right, but perhaps instead of my trying to straighten it out here, you might look at the minutes of the Economic Committee when they come out.

A-1

Mr. Dyer

July 15, 1966

Irving S. Friedman

Mr. Frederick T. Moore

In view of the recommendations on Mr. Frederick T. Moore, let's go ahead and try to nail him down, although you may wish to speak to Mr. King or Mr. Kamarck before going ahead.

When everyone is agreed that we should try to get him then I would be happy to see Mr. Moore, with the understanding that if I am also suitably impressed I will make an offer to him. In that connection I would like to have some guidance in what is regarded as an appropriate title and salary.

(File attached)

cc: Mr. King

CT

Mr. King

July 15, 1966

Irving S. Friedman

Brazil - Debt Reporting

With reference to your memorandum of July 13, is there something we should be doing about the Brazil debt reporting problem?

cc: Mr. Kalmanoff

A-1

Mr. Dyer

July 15, 1966

Irving S. Friedman

Miss Dorothy Wescott

I had the impression from Mr. Kamarck that a satisfactory arrangement had been reached between them and that Miss Wescott would be doing some work for us. I am afraid I do not know any more.

If you need to know more quickly you could call Mr. Kamarck at his vacation place on the Cape.

L-1

July 15, 1966

Dear John,

Thank you for your letter of July 13.

I have written to Mr. Vassiliou, and enclose a copy.

I would be happy to address his group, but as you know, things do get hectic around here. The disappointment in not following through with our "tradition" goes without saying.

Colorado sounds very attractive!

Sincerely,

Irving S. Friedman

Mr. John P. Powelson
Graduate School of Public and
International Affairs
University of Pittsburgh
Pittsburgh, Penna. 15213

L-1

July 15, 1966

Dear Mr. Vassiliou,

Thank you for your letter of July 11 and your proposed change in dates for my talk to the SID Pittsburgh Chapter from July 21 to the second half of October.

Unfortunately I cannot, at this time, give a definite answer as to whether I can come or not, as our Governors' Conference ends around that time and I am also committed for meetings in Europe.

I do hope you understand. If, in the meantime, my calendar becomes clearer I shall be delighted to definitely accept the invitation.

Yours sincerely,

Irving S. Friedman

Mr. Nicos Vassiliou
Society for International Development
University of Pittsburgh
Bruce Hall - Room 1006
Pittsburgh, Penna 15213

Mr. Owen

July 15, 1966

Irving S. Friedman

Economic Sub-Committee Meetings

I do agree with the suggestion contained in Mr. King's memorandum of July 13, that the form and content of the minutes of the Economic Sub-Committees should be reviewed with a view to making them briefer and concentrating on follow-up action.

I believe that we also need, as I mentioned to you the other day, a specific proposal on how to expedite the minutes of the Economic Committee, as I am afraid they are losing much of their value by the delay in getting them out.

I would like to give more thought to my suggestion of using a person from the Area Department concerned in preparing the minutes.

cc: Mr. Kamarck
" Collier
" Kalmanoff
" King

EC1

Mr. Woods

July 15, 1966

Irving S. Friedman

Proposed U.S. Legislation on Food Aid

In light of our brief discussion the other day at the Council Meeting, you may be interested in seeing the attached memorandum on the Status of the Proposed U.S. Legislation on Food Aid.

It seems that the Bill has been passed by the House and is currently under consideration by the Senate Committee on Agriculture and Forestry.

cc: Mr. Knapp

July 11, 1966

Mr. Walter A. Chudson
Assistant Director
Technological Division
Centre for Industrial Development
United Nations
New York, New York

Dear Walter:

Thank you for your letter of July 5. I am passing on a copy of your letter to Mr. Diamond and I assume that if there is any modification in your statement on the paper he is preparing he will let you know.

Mr. Walstedt is now on leave. When he returns he will be in touch with you in regard to your suggestion of modifying the Latin American paper to cover some of the other areas. He will also write to you about other possibilities that he discussed with Mr. Basch.

As far as the papers in your para. 3 are concerned, I am afraid that we are not likely to be able to commit ourselves to undertake any of them. I will be away from the Bank in August. On the other hand, Mr. Kamarck and Mr. Walstedt are away from the Bank in July. It would probably therefore make most sense if you are coming to Washington at some time to visit us, to do so some time in early September although, at the moment, I think we seem to be fairly well in agreement on what is to happen next.

With best wishes.

Sincerely yours,

Irving S. Friedman
The Economic Adviser
to the
President

cc: Mr. Kamarck

AMKamarck:ya

UAR

Mr. George D. Woods

July 11, 1966

Irving S. Friedman

United Arab Republic

Attached hereto is the draft minutes of the Economic Committee meeting on the U.A.R. on Friday.

I apologize for its wordiness. It will be shorter in final form, but I thought you might like to have a glance at it as soon as possible. I draw your attention to the last few pages starting on Page 13 which gives the Conclusions and Recommendations.

Attachment

C
O
P
Y

U K

OFFICE MEMORANDUM

To : Mr. Irving S. Friedman

Date: July 11, 1966

From : W.A. Beveridge

Subject: United Kingdom

Some answers to your questions follow:

(1) The 1957 Amendment to the Anglo -American Financial Agreement gives the right to the United Kingdom to postpone not more than seven annual installments of principal and interest. Three such postponements have now been made, 1957, 1964, 1965. The postponed installments, which amount to £62 million a year, are added to the end of the loan period, which now runs to the year 2003.

(2) Our information on the Exim-United Kingdom agreement is not complete. Our understanding is that Britain will have to pay a commitment fee of one-quarter per cent on any sum not drawn. To the extent that funds are drawn they will have to be repaid in ten six-monthly installments, beginning two years after any drawing; our records indicate that the interest rate is 4 1/2 per cent a year. It seems that this agreement which was first negotiated effective November 1964 was renegotiated in November 1965, presumably for a further year.

(3) Details of use of the Federal Reserve swap and European central banks' support are shown below:

In millions of Pounds

	FRS	Swiss Govt.	Other	Total
Outstanding end--1964	116	28	72	216
Use in 1965				
I	+120		+28	+148
II	-107	+14	-100	-193
III	+139			+139
IV	-99			-99
Outstanding end--1965 <u>1/</u>	169	42	--	211

1/ With the bringing in the reserves of part of the portfolio, this swap had been repaid by end-March 1966.

JUL 11 1966

Official External Assets and Liabilities

(In Millions of Pounds and US Dollars)

	End 1962		End 1964		End 1965	
	£	\$	£	\$	£	\$
Short-term						
Official reserves	1,002	2,805.6	827	2,315.6	1,073	3,004.4
Obligation to Fund ^{1/}	--		357	999.6	857	2,399.6
Other official short-term obligations ^{2/}	<u>2,487</u>	<u>6,963.6</u>	<u>2,800</u>	<u>7,840.0</u>	<u>(2,700)</u>	<u>7,560.0</u>
Balance	-1,485	-4,158.0	-2,330	-6,524.0	-(2,485)	6,958.0
Long-term						
Official assets ^{3/}	(1,068)	2,990.4	(1,293)	3,620.4	(1,300)	3,640.0
Official obligations ^{4/}	<u>(2,650)</u>	<u>7,420.0</u>	<u>(2,588)</u>	<u>7,246.0</u>	<u>(2,600)</u>	<u>7,280.0</u>
Balance	-(1,582)	-4,429.6	-(1,295)	3,626.0	-(1,300)	3,640.0

Source: Bank of England, Quarterly Bulletin for 1962 and 1964 data; 1965 rough estimates.

^{1/} Fund's holding of sterling in excess of 75 per cent of U.K. quota.

^{2/} Mainly holdings of U.K. Treasury bills by overseas residents and holdings of government stock by official overseas residents.

^{3/} Mainly the official dollar portfolio and loans by U.K. government.

^{4/} Mainly North American loans. For past two years have waived interest and principal.

Resources Currently Available Plus Support Schemes

	ESg. millions	US\$ millions
Reserves -- end June 1966	1,176	3,292.8
Official dollar portfolio	1791/	501.2
Credit facilities with Federal Reserve (\$750 m.)*	3572/	999.6
" " " Ex-Im Bank (\$250 m)		
New "Basle" arrangements (mostly European Central Banks plus BIS)	3573/	999.6

- 1/ About two-thirds of the portfolio was brought into the reserves earlier in 1966.
2/ Presumably some part of these facilities were used in June 1966.
3/ Size of commitments not officially announced - presumed to be equivalent to about \$1 billion. Consists mostly of European inter-Central Bank credits (believe 90 days, maybe 180 days) plus Bank for International Settlements (BIS) and some small U.S. funds have parallel but separate agreement equivalent to about \$50 million. It is possible that there was some use of these arrangements in June.

~~*\$3 million swap~~

*3 months' swap renewable.

A-2

PERSONAL

DECLASSIFIED

July 12, 1966

AUG 16 2023

WBG ARCHIVES

Dear Paul,

Thank you for your letters of June 30 and July 4 and the enclosed curriculum vitae of Brian Tennant and Michael Sharpston. I will speak to our Personnel Department about them. Both sound as though they would be good additions to the Economics Department here.

It was good to see you again. Will you be over this way in the near future?

Kindest regards,

Yours sincerely,

Irving S. Friedman

Mr. Paul Streeten
Ministry of Overseas Development
Eland House
Stag Place
London SW 1, England

cc: Mr. de Vries
(Would you handle this please?)

July 7, 1966

Mr. Howard Wiggins
National Security Council
Executive Office Building
Room 372

In accordance with our conversation today.

Mr. Friedman/s memo to Mr. Woods May 27, 1966
and attachments - Proposal on India and Pakistan Defense Expenditures.

APR 3 - 1967

4. The Proposal for IDA Replenishment

Taking these considerations into account, an increase in the replenishment of IDA resources through contributions by Part I countries from the present level of \$250 million per year to \$1 billion per year for three years would be appropriate. This figure is of course much larger than the previous IDA replenishment. It is related to the present and future needs of IDA eligible countries, their ability to make use of such assistance in productive investments, the capacity of IDA to administer the resources efficiently and the capacity of the industrial countries to provide it. Appended Table 2 sets forth past commitments to IDA by Part I countries and an illustrative apportionment among the IDA countries of the proposed replenishment. The apportionment is based on the first replenishment, and is not an endorsement of the view that the proposed replenishment should be apportioned on the same basis. Moreover, the replenishment of IDA may be in the form of donations as in the past or may be partly in the form of debt.

DRAFT
July 7, 1966

INSERT A, Page 7

Appended Table 2 sets forth past commitments to IDA by Part I Countries and illustrative apportionment of the proposed replenishment to an annual level of one billion dollars among the IDA countries. The apportionment is based on the first replenishment, and the inclusion of this breakdown should not be taken as an endorsement of the view that the replenishment of IDA should be apportioned among the Part I Countries on the same basis as the first replenishment. Moreover, the replenishment of IDA may be in the form of donations as in the past or may conceivably be partly in the form of debt.

L-1

Mr. Graves

July 8, 1966

Irving S. Friedman

Editors' Meeting

The attached clippings were sent to me by friends. One is from the Minneapolis Star and the other from the Miami Herald. Does your clipping service pick these up?

(Do you think Mr. Wood would be interested in seeing them? (Handwritten by ISF))

Attachment

UAR

Mr. Douglas J. Fontein

July 8, 1966

Irving S. Friedman

U.A.R. - Information from U.S. State Department

Thank you for the copy of the memorandum on the U.A.R. and the visit of Mr. Hamid El Sayeh. Mr. Hamid El Sayeh is an old friend of mine, and I would appreciate being kept informed of the meetings. Please let me know if any top level meetings are planned with him.

JUL 8 - 1966

IDA

IDA Replenishment: Attached letter sent by special messenger to following people:

- Mr. David Bell - Administrator AID, US State Dept.
Mr. William S. Gaud - Deputy Administrator AID, U.S. State Dept.
Mr. Anthony Solomon - Asst. Secretary for Economic Affairs, US State Dept.
Mr. F. Demming - Under Secretary of the Treasury for Monetary Affairs
US Treasury (Room 3312 Main Treasury)
Mr. Winthrop Knowlton-- Acting Assistant Secretary for Monetary Affairs
US Treasury (Room 3434 Main Treasury - drop "Acting" when confirmed by Senate)
The Honorable Francis M. Bator - Deputy Special Assistant to the President for
National Security Affairs, Executive Off. Building - Room 361 Ex. Offc.Bldg)

Mr. Stevens - UK - ED.

Mr. Woods -

" RICHARDSON - Bureau of the Budget

7/11

July 8, 1966

Dear Francis,

Attached hereto is the suggested memorandum from Mr. Woods on IDA replenishment, along the lines we discussed. We are thinking of sending it to the Part I Executive Directors for their transmission to the Governors of the Part I countries. We are hoping to have this out in time to ask the Executive Directors also to bring the memorandum to the attention of those coming to the High Level DAC meeting this month.

All comments would be most appreciated but could I have them by Monday since we do wish to send this out to our Executive Directors on Tuesday.

Sincerely,

Irving S. Friedman

The Honorable
Francis M. Bator
Deputy Special Assistant to the
President for National Security Affairs
Executive Office Building
17th and Pennsylvania Ave NW
Washington D.C.

July 7, 1966

IDA REPLENISHMENT

Last summer I began the necessary preparation for the replenishment of the resources available for lending by IDA. Progress on this matter was, however, interrupted by a number of factors, particularly hostilities between India and Pakistan. The issue of IDA replenishment has since last year become an urgent one; and if the resources of IDA are not replenished in the coming months, IDA can not continue to make new commitments.

The purpose of this memorandum is to present a proposal for replenishment at a new level higher than the one set for our first six years. To justify the proposal I will describe IDA's present financial position and then set forth the considerations which lead me to believe that the proposed level of replenishment is both desirable and possible.

1. IDA Operations to date:

IDA credits have been extended only to the poorest countries, i.e., those with a per capita annual income of around \$250 or below. Two further limitations are, first that their balance of payments prospects must justify the type of concessional repayment terms granted by IDA and second, that their economic performance must warrant the investment of capital by the international community. The per capita income criterion is admittedly arbitrary and has resulted in the exclusion of countries that might otherwise be appropriate borrowers from IDA; the criterion has been observed, nevertheless, in response to the need to ration limited resources.

IDA credits are for purposes of high developmental priority, and for specific projects and other clearly identifiable uses. All credits to date are repayable in 50 years, including a grace period of 10 years before

repayment of principal commences. There is no interest, only a service charge of $\frac{3}{4}$ ths of one percent. The terms of maturity and interest are thus both highly concessional. It is worthy of note, however, that payments to IDA of principal and interest are to be made in convertible currencies. Credits are extended for the same purposes as IBRD loans, i.e., mainly for transportation, electric power generation, agriculture, industry, communications, education. Furthermore, when IDA credits are re-lent to entities within a recipient country, interest charges are at conventional rates.

The present state of IDA finances is summarized in Table I. The total of convertible funds which have been placed at the disposal of IDA so far (June 30, 1966) amounts to \$1.68 billion. IDA commitments to date aggregate \$1.37 billion, in credits extended to 27 countries and 3 dependent territories. About three-quarters of this total has gone to India and Pakistan; countries in Africa received about 10 percent and the poorer countries of Latin America about 7 percent; the remainder of slightly less than 10 percent was lent to countries in the Middle East and Far East.

The rate of annual commitments, which reached a peak of \$309 million in the fiscal year 1964-65, slowed somewhat in 1965-66 to \$284 million partly because of the interruptions mentioned above, and partly because a number of credit proposals under active negotiation were not finalized before the end of the fiscal year on June 30, 1966. The increasing annual level of disbursements, on the other hand, was not interrupted in 1965-66, when it reached a peak of some \$267 million. Total disbursements to date are \$682 million.

The volume of uncommitted IDA resources available for lending at

the present time (including certain amounts which are expected to be made available soon to IDA) is about \$400 million. This amount is likely to be committed within a period of less than a year on the basis of credit proposals now in negotiation or under consideration with IDA countries.

2. Trends in Total Development Finance for the Poorer Countries:

Last year I suggested to you that the less developed countries have achieved impressive progress in a decade and a half of development. The average annual rate of increase of gross national product by 4 to 5 percent during these years, with higher rates in some, provides grounds for considerable hope. The outlook is, however, clouded in a number of ways:

(i) Because of the rapid growth of population, recent increases in GNP have been only about 2 percent per capita. Though progress is being made in the field of checking population growth, it takes a considerable number of years before birth rates can be effectively reduced. For the immediate future - even with the best efforts in this field - we will have to look mainly to an increase in economic growth to achieve higher standards of living.

(ii) Export growth of the developing countries has lagged considerably behind the growth of world trade. The lag is attributable at times to shortcomings in the policies of the exporting countries but frequently results from limitations on access to markets. Progress has been greater in the 1960's than it was in the 1950's, and the slowdown in 1965 appears to have been only temporary. Nevertheless, dependence on one or a few primary products still remains the rule and serious weaknesses persist in the markets

for important agricultural exports.

(iii) The level of official capital flows from OECD countries to the developing countries and to multilateral institutions remained static at about \$6 billion a year, net of amortisation, from 1961 through 1965. During this period total output of the developed countries in OECD increased by about \$300 billion in current prices. The ratio of net official capital flows to national income thus declined from an estimated 0.8 percent in 1961 to 0.6 percent in 1965. An offsetting movement occurred in private capital from OECD countries, which increased from \$2.2 billion in 1963 to \$3.1 billion in 1964, and \$3.8 billion in 1965. Such flows were, however, directed for the most part to only a few countries, and only infrequently to the poorest countries.

(iv) The terms of bilateral assistance, which accounts for more than 85 percent of total assistance to the developing countries, have tended to harden. A declining ratio of grants in the total was partly offset during a number of recent years by a lowering of interest rates and a lengthening of maturities and grace periods; but the data reported for 1965 indicate a reversal in this trend.

(v) Payments of amortization and interest are equivalent to a large and rising proportion of the inflow of capital. Debt service payments of developing countries on external public and publicly-guaranteed debt, which totalled about \$2.5 billion in 1962 and 1963, increased rapidly to \$3.35 billion in 1964, and \$4.25 billion in 1965. The ratio of debt service to exports is at critical levels in a number of countries. It is a sobering fact that the return flow of amortization, interest and dividends currently is equivalent to half or more of the gross flow in public and private financial resources to developing countries from all sources.

The importance of economic development for peace, stability and the future well-being of the free world has been recognized by your governments, and important commitments have been undertaken. However, if the disturbing trends outlined above are to be reversed or at least prevented from getting worse, the external capital flows to the less developed countries will have to be considerably larger than flows in recent years.

Last year I reported to you the judgment of the Bank staff that the developing countries could effectively use for the balance of the decade, some \$3-\$4 billion per annum more than the flows of such capital in the recent past. This judgment was based on estimates of the capacity of these countries to generate domestic savings and exports, their ability to pursue satisfactory economic policies, their need for imports, and their ability to prepare sound projects and make effective use of capital for such projects. A continuing review, during the past year, has served to confirm the judgment, particularly on availability of projects and on the willingness of countries to pursue appropriate economic policies if sufficient external development finance is available. If external financing is not available in larger amounts, relatively adverse trends are likely to continue in the poorer countries even if their economic policies are reasonably satisfactory.

3. The Need for IDA Finance

Examination of the general trends in development finance thus reveals a need not only for an increase in the overall level but also for softer terms. There are some 45 countries which are considered by the World

Bank Group to be eligible for assistance on IDA terms or on some blend of IDA and World Bank terms. Together, their population adds up to about 1 billion, or close to the two thirds of the population of all member countries which we generally consider to be in the category of developing countries. For this group of countries, the terms of the assistance which they receive are not suited to the rate at which they can repay loans out of likely earnings of foreign exchange. Their debt service payments increased by about 78 percent from 1962 to 1965, when they reached a level of close to \$1 billion. Moreover, the role of private foreign capital is least significant in the case of the poorest of the developing countries. While they take in about half of all external assistance, they probably receive only about 15 percent of private capital. In the estimate of \$3-4 billion of additional capital requirements mentioned above, these IDA eligible countries account for about \$2 billion.

The judgment of the World Bank staff is that countries which are now considered to be IDA-eligible could, over the next five years, absorb about four times as much as the past volume of IDA resources would permit in uses of the type which now qualify under World Bank Group standards. This judgment is based on a country-by-country review. It assumes no change in the present country eligibility criteria for IDA assistance, or in the present standards of project or sectoral investment performance. Any relaxation in either of these two sets of assumptions would yield still higher estimates of absorption capabilities. The estimate also excludes those projects or parts of projects which are expected to be financed by bilateral sources, by other international financial institutions or which could be financed on IBRD terms. For example, project possibilities in

India and Pakistan have been subjected to the limit that their share in the estimated total should not exceed their present share in IDA commitments. It also excludes needed program lending. It does not include Indonesia which may become member of the World Bank Group and be IDA eligible.

It cannot be over-emphasized that the increase in IDA resources set forth below presupposes adequate performance by the developing countries. The developmental effort of a country must stand up to close scrutiny, both for its own sake and in fairness to other less developed countries. IDA will in any case continue to insist on high standards of performance on the part of recipient countries.

h. The Proposal for IDA Replenishment

Taking these considerations into account, an increase in the replenishment of IDA resources through contributions by Part I countries from the present level of \$250 million per year to \$1 billion per year for three years would be appropriate. This figure is of course much larger than the previous IDA replenishment. It is related to the present and future needs of IDA eligible countries, their ability to make use of such assistance in productive investments, the capacity of IDA to administer the resources efficiently and the capacity of the industrial countries to provide it. Appended Table 2 sets forth past commitments to IDA by Part I countries and an illustrative apportionment among the IDA countries of the proposed replenishment. The apportionment is based on the first replenishment, and is not an endorsement of the view that the proposed replenishment should be apportioned on the same basis.

Even an IDA with these increased resources would need to be subject to severe rationing criteria. Low income limits would still be necessary. Within these limits, no substantial IDA credits can be assumed for those coun-

tries which could afford to borrow for their external capital requirements on conventional terms. Performance criteria would remain strict.

5. Implications for Donors

In overall terms, the proposed increase in the annual rate of subscriptions to IDA is \$750 million. At present, seven Part I countries (U.S., U.K., Germany, France, Japan, Canada and Italy) account for some 88 per cent of subscriptions to IDA by all Part I countries. Assuming the apportionment of the first replenishment, the proposed scale of the new replenishment would mean for the seven countries a combined increase of about \$662 million. (See appended Table 3). This would mean an average increase equivalent to slightly more than 10 per cent of their total net official assistance to the developing countries in 1965. Individually for these countries, the assumed increased subscriptions to IDA represent 8 percent of the 1965 level of net official aid for France, 9 percent for the U.S., 16 percent for Germany, 17 percent for Japan, 20.4 percent for the United Kingdom, 32 percent for Italy, and 36 percent for Canada.

Of these seven countries only France and the U.K. in 1965 had met or exceeded the minimum target endorsed by DAC of one per cent of national income as the volume of total net resources to be made available to the developing countries. Thus for many of the countries concerned, the proposed increase in their contribution to IDA would be within the one per cent target, especially if the expected growth in national income during the next few years is taken into account. Installments payable to IDA by donor countries for this replenishment will not be due until 1968-69 and will remain at the same level for another two years. It may be useful to compare

the expected increases in national incomes of these seven countries with the assumed increases in annual subscriptions to IDA (see Table 4). Taking these countries together the one per cent target would be about \$1.5 billion higher by 1968-69 than it is now and would be rising at about half a billion dollars a year.

The proposed increase in the resources for IDA also appears moderate when compared with the capabilities of donor countries. This judgment may be made by comparison with national income or with expenditures for other purposes, such as gross fixed investment, defense or education. It appears to be true for the major donor countries, whether taken together or country by country. Some of these indications are set forth in Table 5 (appended). National income of these countries is moreover projected to increase by about 5 percent a year during the period of IDA replenishment.

Under existing circumstances, the industrial countries might nevertheless be expected to be concerned with the implications of the extra effort they are being called upon to make in terms of the impact on their budgets or on their net international payments positions. The effects in each of these fields are, of course, important. It is equally important in considering these effects to keep in mind the timing involved.

Table 4 indicates that the proposed increase in IDA would represent only a very small fraction of total budgetary expenditures and would still remain a minor item in the budget compared with other items. It is hoped that governments will find it possible to make the relatively small increases in their budgetary expenditures needed for the proposed IDA replenishment.

With respect to timing, it will be recalled that only one-third of the first replenishment of IDA resources, on which agreement was reached

two years ago, has been paid in. The other two annual installments are due only in November 1966 and November 1967 respectively. The interval between the granting of credit commitments and the disbursement of funds arising from the commitments makes possible significant intervals between the commitment of contributions to IDA and the effective dates of honoring such commitments. The latter may be effected variously, in cash, demand notes, letters of credit or other method of payment most acceptable to the donor country, to the extent compatible with IDA needs for cash in time to meet obligations for disbursement. Installments payable to IDA by donor countries would, of course, not be due until 1968-69. The reason a replenishment commitment is required in the current fiscal year is that prudent management requires the assurance in advance so that credit commitments can be made with confidence that it will be possible to honor them when disbursements are called for. Agreement during the present fiscal year 1966-67 on the proposed second IDA replenishment would permit commitments at the new level in fiscal 1967-68 and thereafter. It would begin to be reflected in that year in actual disbursements; the full effects, however, would not be felt for several years. For countries whose budgets reflect installment payments or encashment of installments paid to IDA, the budgetary effect will be spread out over a number of years.

Regarding the effects on the balance of payments, some Part I countries have found that more of IDA disbursements are made for purchases in their countries than they have paid into IDA. For these countries the balance of payments has been assisted by the operations of IDA. In other cases balance of payments receipts from disbursement roughly equal

the flow of payments. In some cases the balance of payments of donor countries have been adversely affected by IDA operations to the extent that their contributions to IDA have been greater than IDA disbursements in their countries. However, in the latter case, the actual magnitude of the adverse effect may be considerably less than that indicated by an examination of IDA disbursements and receipts. Some of IDA funds are used to cover the local currency costs of projects. In addition, countries which are net gainers from IDA disbursements may in turn use part of such net gains for purchases in a country with balance of payments difficulties. Funds from these two sources are no longer identifiable as IDA disbursements. To the extent, however, that they are spent in a country with balance of payments difficulties, these expenditures assist the balance of payments. In one of the major donor countries, the United States, where the balance of payments is a cause of special concern, it may further be noted that the combined effect of World Bank Group operations has been substantially positive.

Donor countries may wish to adopt procedures affecting the relation between a donor, the IDA and other donors in light of balance of payments positions. The Secretary of the Treasury of the United States, which has been the largest single contributor to IDA in the past, has made suggestions which point to this possibility. From the viewpoint of effective management of IDA, it is necessary that the total of funds available to IDA from all sources be known well in advance when commitments are made, even though disbursements take place months or years later; that the procedure of international competitive bidding be maintained; and that no conditions be placed on the funds which would diminish their efficient use in financing sound investments. Arrangements now exist among donor countries to help each other meet balance of payments difficulties. This approval might conceivably be extended to IDA contributions, so long as the basic principles of efficient

management are not interfered with. Donor countries may wish to make clear that any steps which may be thought necessary to deal with domestic budgetary or balance of payments problems will not be at the expense of those developing countries whose economic performance and careful use of external resources warrant the continued support of the international community.

Conclusion

The proposed figure for IDA replenishment of \$1 billion per year for three years is large only if compared with the past size of IDA. It is not large in comparison with the needs and opportunities for productive investment in the developing countries. It is also well within the capabilities of developed countries to provide additional resources. For most countries, their share appears to fall short of the 1 percent of national income set as a target by the U.N. General Assembly in 1960, the U.N. Conference on Trade and Development in 1964 and the OECD Development Assistance Committee in 1965.

I look forward to receiving your reaction to my proposal. I trust that your Government will find it possible to take timely and adequate action on this matter.

George D. Woods
World Bank

PLEASE RETURN.
(FILE COPIES)
D. Molyngot - 1223

Table 1

IDA Finances
as of June 30, 1966

(Millions of dollars)

Available for lending

100% of Part I subscriptions	751
10% of Part II subscriptions	25
Release of Part II 90% subscriptions	5
IBRD transfers	125
Supplementary resources (including 1st replenishment)	763
Net income	9

1,678

Committed

1,365

Uncommitted

313^{a/}

Source: Treasurer's Department

^{a/} Does not include \$75 million of IBRD contribution expected to be authorized by Board of Governors in September 1966, and \$5 million supplementary expected from Sweden in 1966/67.

Table 2

Commitments to IDA by Part I Countries, as of June 30, 1966
(thousands of U.S. dollars)

	<u>Initial Subscriptions</u>	<u>Special Subscriptions</u>	<u>First Replenishment Total Commitment</u>	<u>Annual Replenishment Commitment</u>	<u>Illustrative Apportionment of Proposed Replenishment Annual Commitment</u>
United States	320,290		312,000	104,000	418,900
United Kingdom	131,140		96,600	32,200	129,600
Germany	52,960		72,600	24,200	97,500
France	52,960		61,872	20,624	83,100
Canada	37,830		41,700	13,900	56,000
Japan	33,590		41,250	13,750	55,400
Italy	18,160		30,000	10,000	40,300
<u>Total 7 Countries</u>	<u>646,930</u>		<u>656,022</u>	<u>218,674</u>	<u>880,800</u>
Australia	20,180		19,800	6,600	26,600
Austria	5,040		5,040	1,680	6,800
Belgium	8,250		8,250	2,750	11,100
Denmark	8,740		7,500	2,500	10,100
Finland	3,830		2,298	766	3,100
Kuwait	3,360		3,360	1,120	4,500
Luxembourg	375		375	125	500
Netherlands	27,740		16,500	5,500	22,100
Norway	6,720		6,600	2,200	8,900
South Africa	10,090		3,990	1,330	5,400
Sweden	10,090	18,135	15,000	5,000	20,100
<u>Total 11 Countries</u>	<u>104,415</u>	<u>18,135</u>	<u>88,713</u>	<u>29,571</u>	<u>119,200</u>
<u>Grand Total</u>	<u>751,345</u>	<u>18,135</u>	<u>744,735</u>	<u>248,245</u>	<u>1,000,000</u>

Table 3

Illustrative Apportionment of Proposed Increase
and Present Total Official Aid

Country	Assumed Increase in Annual Subscriptions to IDA (in millions of dollars)	Col. 1 as % of Net Flow of Official Capital to Developing Countries & to Multilateral Agencies, 1965.	Net Flow of Official Capital to Developing Countries & to Multilateral Agencies as % of Estimated National Income, 1965. ^{a/}	Col. 1 as % of Estimated National Income, 1965
United States	315	8.8	0.66	0.06
United Kingdom	98	20.4	0.63	0.13
Germany	73	15.7	0.57	0.09
France	62	8.2	1.10	0.09
Canada	42	35.6	0.34	0.12
Japan	42	16.8	0.43	0.07
Italy	30	32.3	0.23	0.07

Source: See Table 5.

^{a/} Exclusive of private capital flows, which count as part of the total flows encompassed in the DAC aid target of 1 per cent of national income.

Table 4

Illustrative Apportionment of Proposed Increase
and Growth in National Incomes

	<u>Capital Flows as % National Income in 1965^{a/}</u>	<u>Estimated Increase in National Income from 1965 to 1968 ^{b/} (\$ millions)</u>	<u>1% of Estimated Increase in National Income 1965 to 1968 ^{b/} (\$ millions)</u>	<u>Assumed Increase in Annual Subscriptions to IDA (\$ millions)</u>
United States	0.99	80,400	804	315
United Kingdom	1.17	10,100	101	98
Germany	0.83	9,200	92	73
France	1.88	10,600	106	62
Canada	0.43	5,800	58	42
Japan	0.74	15,900	159	42
Italy	0.57	6,600	66	30
Total of the above 7	<u>0.99</u>	<u>140,600</u>	<u>1,406</u>	<u>662</u>

^{a/} By DAC definitions and data.

^{b/} Calculated according to OECD projections of % increase in GDP in constant prices.

Table 5

Illustrative Apportionment of Proposed Increase and Selected Economic Indicators
(values in millions of dollars)

	<u>Assumed Increase in Annual Subscriptions to IDA ^{a/}</u>	<u>Net Flow of Official Capital to Developing Countries and to Multi- lateral Agencies, 1965^{b/}</u>	<u>Net Flow of All Capital (Official Plus Private) to Developing Countries and Multilateral Agencies, 1965^{b/}</u>	<u>Estimated National Income, 1965 ^{c/}</u>
United States	315	3,583	5,340	556,900
United Kingdom	98	480	923	78,900
Germany	73	471	688	85,000
France	62	757	1,328	70,200
Canada	42	118	135	35,600
Japan	42	244	486	65,700
Italy	<u>30</u>	<u>93</u>	<u>268</u>	<u>42,100</u>
Total 7 Countries	662	5,746	9,158	934,400

^{a/} Country distribution has been made on basis of shares in first IDA replenishment.

^{b/} OECD data; preliminary.

^{c/} OECD data.

Gross Fixed Investment 1965 ^{d/}	Central Government Expenditures (Total) 1965 ^{e/}	Defense Expenditures 1965 ^{f/}	Education Expenditures ^{g/}	GNP Projected Average Annual Real Growth Rate 1965-70 ^{h/}
107,300	123,300	52,400	32,200 (1963)	4.6%
20,600	29,100	6,100	5,000 (1963)	4.1%
27,500	26,900	5,100	2,000 (1963)	3.5%
18,400	18,200	5,200	3,500 (1965)	4.8%
10,100	7,800	1,600	2,750 (1965)	5.2%
23,300	18,700	700	1,100 (1965)	7.5%
<u>10,400</u>	<u>10,000</u>	<u>1,500</u>	<u>1,700 (1964)</u>	<u>5.0%</u>
217,600	234,000	72,600	48,350	4.7%

^{d/} U.N. Monthly Bulletin of Statistics.

^{e/} International Financial Statistics.

^{f/} U.S. Department of Defense "Military Assistance Facts," May 1, 1966 with the exception of Japan, where the figure is for 1964 from the U.N. Statistical Yearbook for 1964.

^{g/} U.N. Statistical Yearbook for 1964, and individual country budgets.

Note: All data given in sources in local currencies have been converted to dollars at IMF par rates.

Cwd -
July 7, 1966

Dear Irwin,

Please accept my apologies about lunch and I look forward to seeing you at 3 pm.

I am attaching two memoranda prepared by Mr. Stanley Johnson which I am sure you will find interesting. I had thought we might discuss them during our lunch and perhaps you and I could discuss them at 3.

In the meantime you might wish to give some quick reaction to your luncheon partners to these memos, as well as any other thoughts you have.

I had asked to join us at lunch today Mr. Don Waage. Don is doing some consultant work for me at the Bank on a number of different things and I have asked him to give thought to the questions you have raised and to let me have his reaction. Don's background is a combination of banking and public relations. At the present time he is with Investors Services.

Stanley Johnson has been working with me on various matters. He is fairly new in the Bank but has done a good deal of work on the World Bank and non-governmental organizations. If we go forward with this it is likely that he would play an important part in the Bank's work in this field, so anything you can do to educate him I would appreciate!

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SECRET

Directors of Area Departments

WBG ARCHIVES July 7, 1966

Irving S. Friedman

IDA Absorptive Capacity : 1966-1970 (Revised)

I thought you might like to have a copy of the attached memorandum which, as you know, was based on discussions with the Area Departments.

I would appreciate very much that this memorandum be given no further circulation.

Attachment

cc: Director of Economics Department

Mr. Woods

July 6, 1966

Irving S. Friedman

IDA Replenishment

Attached hereto is a draft of the memorandum on IDA replenishment. The memorandum is about the same size as last year - perhaps a trifle shorter excluding the three appended tables. ~~Table 3 is being typed and will be sent in shortly.~~

You will recall that we talked about sending the memorandum on a preliminary and informal basis to Messrs. Bator, Demming and Solomon sometime this week.

Attachment

(Taken to meeting with Bell & Grand of AID)

P-1
(with Mehdi Sami
correspondence)

June 29, 1966

Dear Arthur,

Thanks for your letter of June 24,
and glad to know the Middle East visits
have worked out successfully.

Under separate cover I'm mailing
our reports on Iran and Venezuela and
trust they will be of some help. The
report on Saudi Arabia is completely
out of print and unavailable.

Enjoy the trip and have fun,

Sincerely,

Irving S. Friedman

Professor Arthur Smithies
Harvard University
Department of Economics
229 Littauer Center
Cambridge 38, Mass.

Mr. Friedman

June 29, 1966

Bimal Jalan

Mr. Erb of UNCTAD called me last week to tell me that the Inter-Governmental Group on Supplementary Financing was meeting on September 12. In this connection he mentioned that Mr. Dell would be sending you a list of questions which the group might discuss. He did not ask for my reaction to this idea of having a list of questions for the group, and I did not discuss whether this was a good idea.

BALANCE OF PAYMENTS & IDA

Kamark
Draft
June 30-66

1. Effect on U.S. balance of payments is neutral if the expenditures (direct and indirect) from IDA credits equal the drawings on the U.S. contribution. (The argument that IDA financed exports are nevertheless a drain on the U.S. balance of payments since they represent a shift from export for pay to exports paid by IDA would not be so, as long as the U.S. is still less strained than the other industrial countries - which is true. (i.e. if Germany does more for IDA, she has to import the raw materials, fuel, and even labor; for us, the small addition is so small in relation to our total economy, which is not as fully employed, that we can handle it still out of using resources more fully).

2. How accomplish neutral effect on balance of payments?
 - a) No problem if direct foreign exchange component financed by IDA and indirect (local currency finance) in practice returns all IDA dollars to U.S. for purchases.
 - b) If (a) proves not to be true, if some recipient country has foreign exchange control, we continue international competitive bidding on direct foreign exchange component; on local currency finance, have country agree to increase allocation of foreign exchange licenses for dollar purchases by equivalent amount. (If we want to be nominally correct on this, we could simply have a separate dollar account set up to finance dollar imports - whether they're additional or not.)
 - c) IDA might commit itself to draw on IDA replenishments only in relation to the actual use of dollars for direct and indirect (estimated) dollar purchases out of IDA credits.

Balance of Payments & IDA - contd.

- d) IDA might recognize a "margin of preference" for dollar purchases, that is, if it turns out that the U.S. is not getting as high a proportion of orders as its share of IDA replenishment would warrant, we would from time to time give a "margin of preference" in the international competitive bidding - the U.S. would get the order if, say its price were up to 105% higher than the otherwise lowest bidder. IDA would increase the credit to the recipient by this amount.

Mr. Michael L. Lejeune

June 28, 1966

Irving S. Friedman

Pension Scheme

As you probably know, the IMF Pension Scheme provides for adjustment to cost of living changes, for obvious reasons. I gather that our pension scheme does not have this feature. Is this right?

If it is, I wonder whether any change in this direction is being contemplated in the proposed revision of the pension scheme to which Mr. Woods referred this morning at the Board Meeting.

cc: Mr. Broches

Mr. Knapp

June 27, 1966

Irving S. Friedman

This was one of the things I had hoped we might discuss at our frequently postponed luncheons!

I would like to send it out as soon as possible but would like to have your comments before so doing.

Attachment

The Secretary

June 27, 1966

Irving S. Friedman

Fund Document EBS/66/135

It would be appreciated if you would obtain for me a copy of EBS/66/135 - Change in Par Value: India, dated June 6, 1966, from the IMF. Thank you.

June 27, 1966

Mr. Woods:

Statement on India - you asked me this morning to give any further comments on the revised statement on India for the Board meeting tomorrow.

I find the new statement a great improvement over the original and have no further comments to make.

Irving S. Friedman

June 24, 1966

Dear Mrs. Posner,

Thank you for your letter of June 13, 1966.

Please forgive me for not having written to you earlier about the Comparative World Almanac. I did enjoy looking through the Almanac, but I must confess that pressure of work has been such that I have not yet had the time to make a careful enough study of it to enable me to make helpful comments. I did, of course, pass the Almanac on to members of my staff.

I am grateful to you for letting me see these volumes.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mrs. James M. Posner
59 Old Mamaroneck Road, Apt. 6C
White Plains, N. Y. 10605

June 23, 1966

Dear Mr. Hatt-Arnold,

Thank you very much for your letter of May 29, 1966 and the enclosed copy of your suggested seminar on The Accelerated Training of Development Planners in less Developed Countries. I am sorry not to have replied sooner but I have been out of the country.

I have been in touch with Andy Rice on this, and when the extra copies you mentioned arrive, I will distribute them around the Bank for comment.

I particularly enjoyed our lunch and chat in Geneva and hope we can repeat it in the not too distant future.

Yours sincerely,

Irving S. Friedman

Mr. A. M. Hatt-Arnold
17 route de Soral
1232 Confignon
Geneva, Switzerland

June 23, 1966

Dear Dr. Shontz,

It was a pleasure to meet you the other day.

Unless my memory is playing tricks with me, I believe I promised to send you the attached material on India and on our Supplementary Finance Scheme.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Enclosures

Dr. Patricia Shontz
Editorial Writer
Detroit News
Detroit, Michigan

June 23, 1966

Mr. Kamarek and Mr. de Vries

800

Would you please give me your
reactions to this memorandum?

Aldereweld's Discrimination in Shipping June 2, 1966
(discussed by PC June 30, 1966)

Messrs. Adler, Avramovic, Kamarck, King, Thompson
Wright
Irving S. Friedman

June 23, 1966

Draft Annual Report

In view of the shortage of time I plan to send the draft Annual Report to the Economic Committee directly for discussion. I apologise for not having a meeting of our special committee in advance of sending it to the Economic Committee, but I am sure you will understand.

I do hope that in any case you will have time to read the Report carefully and to make your contribution to the Economic Committee discussion.

Attachment

June 22, 1966

Mr. Jalan

1013

Would you please prepare a reply to
Mrs. Posner's letter?

Irving S. Friedman

Mr. Alter and Mr. Kamarck

June 22, 1966

Irving S. Friedman

Consultative Group

I notice that there will be meetings in Paris in July on Brazil and Peru dealing with the economic situation in both these countries.

In view of the content and importance of these meetings I would like to have the Chairmen of the Economic Sub-Committees of these countries attend the Consultative Group meetings as part of the Bank team.

cc: Mr. Hoffman

Mr. Mendels

June 22, 1966

Irving S. Friedman

Annual Meeting

I would recommend that we invite Mr. Walter Lochheim to the Governors' Conference as a guest, if at all possible. I don't believe that I need spell out to you why I am making this recommendation. His address is:

723 Transportation Building
Washington 6, D.C.

June 22, 1966

Mr. Pereira Lira and Mr. Jalan 1036

Would you please give me your comments
on the attached paper. Thanks.

DECLASSIFIED

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WBG ARCHIVES

June 22, 1966

Remod.

Dear John,

I have just received the note on the relationship between the proposals to extend the IMF compensatory finance facilities and the supplementary finance Scheme.

It is most kind of you to get a copy for me. Of course we will regard it as neither an official British or Bank of England paper. I expect to read it very soon and will be sending you any comments which I may have.

I enjoyed our evening together very much and have already done a few things about the personal matters we discussed. Let's keep in touch, one way or another. Thanks again for your help in London in making the arrangements for me to see the various Ministries as well as the Bank of England.

With warmest regards,

Yours,

Irving S. Friedman

Mr. John Kirbyshire
Bank of England
London

P-1

June 23, 1966

Dear M. Bonnet,

It was most kind of you to mail me
the copy of your book. Thank you, and
I am sure I'll find it extremely
interesting.

I enjoyed our conversation at Basle --
perhaps we'll be able to get together
again fairly soon. I hope so anyway.

Again many thanks for the book.

Yours sincerely,

Irving S. Friedman

M. Henri Bonnet
Bank of France
Paris
France

SID

June 23, 1966

Dear Dr. Sertoli,

I enjoyed the opportunity of meeting you again in Basle. You will recall that among other things I talked on a personal basis about the possibility of your becoming a Patron of the Society for International Development, and you suggested I send you the necessary information. I hope you find the attached material answers any questions you may have.

I am also enclosing some samples of the kind of work which the Society does, in addition to organizing conferences and other opportunities for exchange of views. Last month in Brussels the Society had its second European Regional Conference, and we are pleased to be able to say that the Society appears to be very lively in Europe and is growing fast, especially in France. The first meeting of the German chapter is taking place in Bonn on June 30. Our 1967 World Conference is now definitely set to take place in Milan from June 7 to 11.

I believe that it would greatly enhance the prestige of the Society to have your Institution as one of its Patrons. I am particularly eager that we do everything possible to broaden the international character of the Society and especially to make it more active in Europe. Patrons of the Society have been contributing \$1,000 a year to its maintenance.

We would all be very pleased if your important Institution found it possible to become a sponsor.

With warm regards,

Sincerely yours,

(signed) Irving S. Friedman

Irving S. Friedman

Dr. Giandomenico Sertoli
Director
European Investment Bank
11 Mont des Arts
Brussels
Belgium

cc: Mr. Rice

Mr. George D. Woods

June 22, 1966

Irving S. Friedman

Canadian - U.S. Balance of Payments

This is in response to your request for comments on Mr. Wilson's letter to you of June 10 written from Canada.

You will recall that at the time of the U.S. Interest Equalization Tax a special deal was worked out with Canada. This financial arrangement, the details of which I believe have not been published, provides that the Canadians will so manage their inflows and outflows of capital as not to have an increase in their monetary reserves. In Canada the monetary reserves are held in a special Exchange Fund owned by the Government but managed by the Bank of Canada. The basic idea underlying the arrangement was that there would be enough inflow of capital from the U.S. into Canada to finance the current account deficit in the balance of payments but not so much as to cause an increase in reserves. Actually Canada's reserves have increased substantially -- in the magnitude of many hundreds of millions of dollars -- largely due to the favorable grain export situation resulting principally from wheat sales to Russia.

There is the chance that if the Canadians experience further significant increase in reserves, the American government might be goaded into treating Canada as other industrialized countries which, of course, would be most unwelcome to the Canadians. The Canadian balance of payments tends to be seasonal with reserves going down in the winter and spring and going up in the summer and fall as tourists come in and exports move out. The Canadians might well be concerned that the new agreement for sales of wheat to Russia will cause another bonanza in foreign exchange this summer and fall and thus jeopardize their financial understanding with the United States. It would thus seem that and could well be a most favorable climate for some large World Bank operations with Canada in the coming months. From past experience I would say that the Canadian Government have considerable amount of freedom of action in what it can invest their reserves although like most governments it has tended to be on the cautious side.

(As you know from previous conversations, I believe that we could do much more with many other countries in this respect, including countries in less developed areas. In 1965 the LDCs accumulated over one billion dollars in reserves and converted virtually none into gold.)

There are a number of interesting problems of a more technical character in keeping the bilateral balance of payments accounts between the United States and Canada. The United States as a reserve currency country tends to try to keep a close watch over changes in foreign assets and liabilities particularly those of a short-term character. Moreover, with the voluntary restraint program the U.S. tries to obtain comprehensive view of investments abroad including direct investments. In the case of Canada this leads to special complications because of the many branch firms in Canada of U.S. companies and, to a lesser extent, vice-versa. The Canadians are not as much

concerned about changes in assets and liabilities but rather in net inflow or outflow of capital. For example, if an American firm makes a bank deposit in Canada, this shows up in the U.S. balance of payments statistics as a short-term claim by the U.S. on Canada even if the deposit is in effect transferred on to a European bank in the Eurodollar market. On the Canadian side, if the original U.S. deposit is entirely offset by a lending to a European bank in the Eurodollar market, there has been no net change because there has been no net inflow or outflow of capital. Until recently, this would surely have not been recorded in the Canadian balance of payments; more recently, the Bank of Canada has been publishing more details. The keeping of direct investment accounts leads to even more complications -- the Americans having a rather broad definition of direct investments and the Canadians a rather narrow one. For years Canadian and American balance of payments technicians have been talking to each other about these problems even though the total figures tend to tally. I don't believe, however, that these discrepancies in balance of payments techniques would interfere with any World Bank operations with Canada of the kind being suggested.

I would be happy to talk further with you about these matters if you so desire.

June 22, 1966

My dear Mr. Minister,

Thank you for your letter of April 21, 1966 concerning our study on private export credit. I recognize the special concern of the Government of Spain and the widespread interest in the subject which was expressed at the Third Session of the United Nations Trade and Development Board.

Since my exchange of letters with Senor Navarro Rubio in September and October 1964, we have made considerable progress in carrying out the studies requested of us by UNCTAD. We have already issued reports on the Horowitz plan and on supplementary finance to meet unexpected shortfalls in export earnings. We are now hoping to be able to publish at least a portion of our study on suppliers' credit before the Annual Meeting of the IBRD and IMF this Fall.

A cause of delay in producing this last study is the relative complexity of the subject, on which both reliable statistics and careful analysis are rare. Some preliminary spadework has therefore been necessary. Export credit is a field in which many governments are engaged in an increasingly acute competition. It is one in which they tend to feel that their national interests are concerned. Experience in organizations such as the Berne Union and the OECD has, as you know, demonstrated how difficult it is to work out agreements affecting it. In the circumstances, if we wish to produce feasible and practical proposals which have a reasonable chance of success, it appears wisest to proceed with considerable circumspection.

Our study has been divided into two parts, one dealing with private export credit from creditor countries, the other with credit from debtor countries. The former is likely to be ready first. Although it would be premature for me to discuss the conclusions, I would like to assure you that much of the inquiry has been devoted to the effects of the unequal abilities of countries to provide export financing, particularly the effects of unequal credit terms on importation by the developing countries.

I appreciate the initiatives of yourself and your colleagues on this subject. I will be sure to send you copies of our studies on this subject as they become available.

With best wishes, Mr. Minister, I am,

Yours sincerely,

(Signed) George D. Woods

George D. Woods

His Excellency
Senor Juan Jose Espinosa San Martin
Minister of Finance
Madrid, Spain

Cleared with Messrs. Hoffman & Cheek
cc: Mr. Demuth
Mr. Hoffman
Mr. Cope

JCHalley/ISFriedman/dm
6/21/66

Mr. Woods

June 22, 1966

Irving S. Friedman

A Few Further Thoughts on IDA Replenishment

On the basis of views expressed to me by various officials in Europe and the United States, both very recently and in the past months, I believe that IDA replenishment will involve the following issues or questions. I thought it might be useful to give briefly my own views on these questions without too much concern with precision or polish. Much of these views are, of course, the fruits of our past conversations on this question. For convenience I am stating the issue or question first and then my view or answer.

1. Magnitude including the possibility of distinguishing between a "basic" contribution plus an additional contribution which might be given in a different form on different terms. This might also include the question of impact on countries' voting strength in IDA.

IDA should be able to look forward to operations in the magnitude of a billion dollars a year. Replenishment funds would not be forthcoming until 1968/69 and 1970. Therefore, it would be a question of increasing our IDA commitments to a billion dollar level in a few years. We would, of course, not expect to jump to this level in 1967. We could leave to any country whether it would choose to give its entire contribution via the budget or to give all or some portion or whether they would prefer in some other form as a loan to IDA on approximately the same terms as IDA gives credits. Additional contributions should be on the same untied terms as the basic contributions. It is assumed that replenishment would be done in such a form so as not to change representation on the Executive Board.

2. The apportionment of the replenishment among the large contributors.

The United States would be asked to give a relatively larger amount, say 45 or 50 per cent as inducement to get this large increase in multilateral funds from others, with the understanding that if the others were not willing to come along with this large increase, the U.S. would go back to its share of approximately 40 per cent.

3. The length of time for which the replenishment would take place.

The replenishment would be for three years. (This position could be reconsidered if it was found that resistance to a large replenishment could not be overcome.) It is believed that a number of countries doing advance budgetary planning, such as the United States and the United Kingdom, ~~will~~ assume a three year replenishment and something shorter might be quite disconcerting but presumably not impossible.

4. The acceptability of "conditional" contributions.

Contributions to IDA should be unconditional. Whatever arrangements are made among the donor countries to help each other in case of balance of payments or other difficulties should not affect the nature of their contributions to IDA. "Conditional" contributions are likely to be pressed on us, but why take them?

5. The willingness of the World Bank Group to accept more general responsibility for performance by IDA recipients.

The World Bank Group should indicate that it is prepared to accept greater responsibility for the attaining and ensuring of sound development performance in the recipient countries. IDA would limit itself to the attainment of nonpolitical objectives and would work in close cooperation with the IMF. A large increase in IDA would strengthen the World Bank Group in playing an effective role in attaining and ensuring better economic performance.

6. The possible use of IDA funds for purposes other than project investment, particularly program financing.

IDA should continue to be primarily a project financing institution. At present it is at times prepared to finance, after careful scrutiny, local currency costs in connection with project investments. It should be prepared to consider on its merits and as exceptions to the general rule program financing when it is an essential factor in achieving the objectives of a good development program and sufficient program financing is not available from other sources. (I do not accept the position advocated by some that the implementation of economic performance responsibilities require general acceptance of program financing.)

7. The possibility of relating IDA contributions to changing conditions in creditor countries particularly balance of payments and budgetary difficulties.

Contributions would come from donor countries separately as in the past. However, all of them could act together as a group or some of them act as a group in the sense that countries might wish to work out the possibility of burden shifting in cases of agreed difficulties. It is conceivable that this could be done without the need of any international judgment, but if such judgment is needed, it could be given by the IMF. It is conceivable that the IBRD or the IDA itself could help in difficult transitional periods. The need to justify an IDA commitment might even be made on the basis for a Fund drawing, but this could lead to a complaint by some that the Fund's resources were inappropriately being used for development.

The essential aspect for IDA is that the availability of funds be certain. The World Bank Group, therefore, would be very much concerned to ensure that any technique or mechanism enable IDA to carry on its activities in orderly and responsible fashion.

8. The possible substitution of multilateral aid in the form of contributions to IDA for bilateral aid.

In principle IDA replenishment should not be at the expense of bilateral aid. However, if asked, we could repeat our previously expressed conviction that IDA represents, on balance, a more efficient way of providing development finance than bilateral assistance when the objectives are essentially those of economic development rather than shorter term political advantages. We may well have to overcome our natural reluctance against self-pleading and argue the case for a multilateral approach. (In a number of countries there seems to be simultaneously the feelings that more multilateral aid, particularly by IDA, is desirable, but that substantial increases in budgetary appropriations for total foreign aid are not practical at this time.)

9. What is more important, an increase in IDA or the financing of the supplementary finance scheme?

As an immediate proposition our interest is in the replenishment of IDA. There is no point in providing insurance for good development programs via the supplementary finance which cannot come into existence because of inadequate financing on appropriate terms. We would hope that after IDA replenishment had been accomplished, countries could turn seriously to the question of considering the financing of the supplementary finance scheme. In the meantime further work on the Scheme is going forward within the Bank and in the various governments looking to a meeting of the inter-governmental group in September.

10. What do we think of a link between reform in the international monetary system and the replenishment of IDA?

The replenishment of IDA should not await any reform in the international monetary system. It is too early to say whether any such reform, if it takes place, would provide resources which could be channeled into long term investment. If yes, it is likely that serious consideration will be given to doing this through the World Bank Group and more particularly IDA. However, at this stage it is urgent to proceed with the replenishment of IDA, whereas, at the quickest, the reform of the international monetary system is something that will take place in 1967/68.

11. Is closer collaboration with the IMF, the OECD, the larger banks, etc. possible?

We have been taking the attitude that we are happy to have other institutions, national and international, benefit by our work and, indeed, do the work instead of us if they are able and willing to do so. Countries are increasingly making use of our technical work and collaboration with these institutions is closer than ever, particularly with the IMF. More, however, could be done and would strengthen donor country support for IDA if done.

12. Are we prepared to organize more consultative groups or similar coordinating bodies?

In many respects this question relates closely to the question of willingness to take greater responsibility for economic performance. If IDA is to be bigger, the World Bank Group leadership in consultative groups will be strengthened and there will probably be more consultative groups under Bank leadership. In the meantime, our staff is being readied to take on these kinds of responsibilities for an increasing number of countries.

13. Will an increase in IDA be at the expense of the operations of the World Bank?

Experience indicates that this would not be so. Most of the major IDA countries are clearly not creditworthy for borrowing from the Bank except for perhaps in small amounts or to maintain existing exposures. Roughly speaking the Bank is likely to continue to be of growing importance principally in Latin America, North Africa and Southeast Asia, while IDA does the bigger job in the rest of Asia and the rest of Africa (excluding South Africa).

14. Would IDA be prepared to administer special "pools" of funds?

There have been suggestions that IDA administer certain special pools of funds for purposes such as India, Pakistan or supplementary finance. As long as the funds are for members of IDA it would seem more logical to do this through the IDA mechanism. However, there seems to be some tendency to break down foreign assistance into specialized problems such as India, Pakistan, food, supplementary finance, etc. It is conceivable that IDA could administer such funds if given without any strings including without tying.

Mr. Kamarck
Mr. de Vries

June 21, 1966

Irving S. Friedman

According to Arthur Karasz, Philip Hayes may well be interested in returning to the Bank. Are you interested?

Karasz says he has a number of offers and Hayes would like to know whether in principle we would be interested in having him.

June 21, 1966

essrs. Nespoulos Neville/Hulley

What do you think and please prepare
appropriate reply.

Irving S. Friedman

Mr. Lachman's letter of June 17 to Mr. Friedman

Mr. Pereira-Lira

June 21, 1966

Irving S. Friedman

Supplementary Finance Study - Meetings with Executive Directors
for Brazil (Mr. Mejia-Palacio) and Argentina (Mr. San Miguel).

In view of Mr. Mejia's reaction I doubt whether it will be wise to send someone to Brazil unless he changes his mind.

I want to make absolutely certain that the countries understand that we are trying to be helpful and in no way trying to impose our presence on them.

Editors; Meeting
June 21, 1966

Financing Problems of the Less Developed Countries
and Measures Proposed for Dealing with Them

1. Present needs

(essentially short-fall of present available resources for investment combined with limited ability to use additional capital in new investments thus restraining availability in future). -- primarily combination of output, savings/investment, inflow of resources and allocation of resources.

(a) Output

(1) Gross GNP - (see Table 1) and Table 2.

(2) Per Capita

(a) Low output - due to low productivity -

many factors as poor infrastructure, human limitations, institutional weakness, etc.

(b) Low living standards - therefore need to provide both for some rising living standards and increase in investment both from low output.

(b) Savings and Investments. (Table 3)

(1) relatively not too bad for many countries - but offset by absolute low levels and population growth.

(2) most of gross investment from own savings.

(3) comparison with developed countries - much higher magnitudes and percentages.

(c) Inflow of Resources

(1) Balance of payments deficits - (trade balance - rough measure) (Tables 4, 5 and 6).

(2) Need to pay debts. - absolute magnitude - servicing - Tables 7 and 8
8 a, b, c and d.

- (3) Other Income Payments - Private income payments (interest + profits, etc.) about 75% of that investment income payments - remainder public debt interest.
- (4) Inflow of Capital -- (Payments for trade deficits + indebtedness + dividends, etc.)
 - (a) Official (facility level)
 - (b) Private increase in 1965. }
 - (c) Total } Tables 9 and 10

2. How to cope with these problems

(including J.W.B. Group activities)

(a) Output

(1) increase productivity - sound projects, competitiveness, export, import liberalization.

(2) Careful allocation of resources - projects, economic policies.

(b) Encourage domestic savings.

(c) Avoid disruption - SFS

(d) Encourage larger inflow of capital on sensible terms - \$3-4 billion -- IDA - type terms -- absorptive capacity.

Close
collaboration with
IMF. {

3. Conclusions

Question of priorities in practice -- no question of excessive burden on gap, but balance of payments and budgets related to economic policies of donor/ creditor countries -- both basic policies to overcome inflationary pressures and achieve satisfactory balance of payments and priorities within public expeditiousness.

Mr. Kochav

June 20, 1966

Irving S. Friedman

Editors' Speech

On the tables of external debt payment of 96 developing countries what is included in external debt? And, do we have also how much more payments have to be made for payments on dividends, profits, etc. (i.e. not on debt).

Mr. Kochav

June 20, 1966

Irving S. Friedman

Speech for Editors - June 21

Thanks very much for the speech material. I would like to have the following put together please:

1. Tables showing foreign aid for net capital inflow as percentage of investments or savings or GNP in LDCs (totals and by countries if possible -- also time series if possible).
2. Tables showing comparison of savings and investment percentages between LDCs and DCs.
3. Tables showing comparison of growth in GNP in LDCs and DCs -- total and per capita.
4. If feasible, tables showing foreign aid for net capital inflow with percentage of exports and imports of LDCs -- time series if possible.

I would appreciate it if in the meantime the figures given to me are checked out, e.g., the Brazilian gross domestic product figure looks low.

Files

March 29, 1966

Andrew M. Kamarck

Meeting with Father Felix A. Morlion, the International University of Social Studies Pro Deo, Rome, Italy on March 18, 1966

Mr. Alter and myself were invited to join a meeting with Father Morlion and Mr. Friedman on March 18, 1966. He told us about the activities of his university, Pro Deo in Rome, and of the organization associated with it in Rome and in New York. This was the Council for International Promotion of Democracy under God, CIP, Incorporated. He said that this was a broad organization that had in it representatives of all faiths. It was in a sense an ecumenical organization that had been set up before the recent Ecumenical Council and which had been strengthened by the Council.

Essentially, their approach was that of the phrase "Chi non puo mangiare, non puo preghare" ("He who cannot eat cannot pray"). Their program was to try to improve the lot of the common man. Now, the main effort was being made in Latin America where he and his organization with the help of the Pope were trying to change the approach of the Church in order to emphasize the need for economic development.

Father Morlion asked Mr. Friedman whether the Bank staff could help in the economic work necessary to carry out these objectives of this new emphasis of the Church. Mr. Alter had to leave because of a previous engagement, after indicating the nature of the Bank's work in Latin America.

After some discussion Mr. Friedman suggested that Father Morlion have his Institute of Economic and Social Research get in touch with Mr. Kamarck, as Director of the Economic Department. It was made clear to Father Morlion that we were very glad to cooperate with the economic institutes of universities; that we tried to do what we could to help, and that we were glad to know of work that they were doing in the whole field of economic development.

Father Morlion asked whether there was any possibility of Mr. Friedman or Mr. Kamarck coming to Rome to speak at his university and meet the persons at the Vatican concerned with economic development. We indicated that this was indeed a possibility; that Mr. Kamarck might be invited to lecture. Father Morlion expressed pleasure at the prospect of visits by Mr. Friedman and myself.

AMK/ISF

Mr. Avramovic

June 10, 1966

Irving S. Friedman

Sorry that we could not get together but I had a meeting with Mr. Woods which lasted until I had to leave for the airport. I have asked Mr. Kamarck to take care of your request.

Mr. Knapp

1220

Mr. Woods has asked me to send these to you and to emphasize that this material has been circulated only to you and to him.

IDA Replenishment - June 1, 1966
Absorptive Capacity 1966-70 - June 7, 1966
April 30 IDA Replenishment dist. to Econ.Cttee
1965

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Mr. George D. Woods

June 9, 1966

Irving S. Friedman

Confidential

Mr. Kristensen, the Secretary General of OECD

Thank you for letting me see this. As we discussed today at lunch, you may wish to suggest to Mr. Merchant that at some time when I am in Paris I would be happy to call on Mr. Kristensen and explain more of the background of our \$3-4 billion figure.

You may recall that when Kristensen was appointed, there was a widespread feeling that the OECD was either going to become unimportant or disappear. At the time, his appointment was taken as additional evidence of this likelihood!

Enclosures - 2

Mr. Merchant's letter to Mr. Woods of June 6 re Kristensen

Mr. Merchant's Office Memorandum of June 8 to Mr. Woods - Geneva Conference on "Atlantic Cooperation and Economic Growth"

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CONFIDENTIAL

June 10, 1966

Dear Takeshi,

I hasten to answer your letter of June 1. I was most interested in the news it contained and hope you succeed in your management and staffing ideas.

With respect to Mr. Moghadam I can say that I have known him many years and think well of him. I would be prepared to add Moghadam to my own staff. He is genuinely interested in the problems of development although his background has been to a considerable extent in central banking. I had not thought of him as being of vice presidential calibre but he probably could do the job. It would represent a big step up for him. His position in the Fund is now at the Assistant Director level, and I think he would compare well with others at that level. I think that he is probably among the best technicians being suggested for the position. I have always found him an agreeable person as well as able. Perhaps on balance I might say that his ability would prove adequate but that he would not be adding "name" to your top post, except in Iran where he is regarded on the ministerial level -- recently was offered the post of Minister of Finance.

Incidentally, if you are looking for an Australian at the vice presidential level, I would recommend most highly Jack Wright of the Reserve Bank. I know him very well. He is energetic, intelligent, experienced, loyal and most highly regarded by Governor Coombs. He is just below the Deputy Governor rank.

I hope this is of some help for you.

With warm regards and best wishes for success,

Sincerely yours,

Irving S. Friedman

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

ECM-1

Mr. Woods

June 9, 1966

Irving S. Friedman

You might be interested in glancing at this. I believe we are making progress regarding the problems of performance as a joint activity and responsibility of the Bank and Fund.

*Pending -
the lectures*

Mr. Kochav

June 9, 1966

Irving S. Friedman

In connection with an address I am scheduled to give on June 21 to U.S. editors, would you please collate the following information in cooperation with Mr. Jalan:

1. Gross national income and GNP -- total and per capita by country in the less developed world -- order of per capita from highest to lowest.
2. For those countries for which it is available, percentage of savings and marginal savings rate.
3. What is size of investment premium, total and percentage of GNP.
4. Size of balance of payments deficit, indebtedness and relation between indebtedness to export earnings -- whatever ratio is used in the Bank.
5. Inflow of external funds into the country -- supported by private and public (if you can make charts it would be a help).
6. How much of public investment of these countries is covered by current surplus in the budget.

If you could arrange to have blow-ups made of the Annual Report charts this would also be a help.

cc: Mr. Jalan

ECM - 1

Mr. Cope

June 8, 1966

Irving S. Friedman

Representation at Economic Committee Meetings

I regret having to write this memorandum since it is the first of this kind I have had to write while in the Bank. However, I feel I have no choice since I have expressed my views orally to you before.

My understanding is that the Director of the Area Departments concerned will normally attend meetings involving their countries. All other Department Directors do. I appreciate your special position as deputy to Mr. Knapp, but I cannot regard failure to attend all meetings of the Economic Committee at which your countries are discussed as normally attending.

I am hurrying this memo to you today since you are scheduled to leave. I am glad that these procedural differences have not interfered with our mutually friendly relations and I hope that when you return we can discuss this over a cup of tea.

IDA & MWS

Mr. Woods

June 8, 1966

Irving S. Friedman

IDA Absorptive Capacity: 1966-1970 (Revised)

The attached memorandum on IDA absorptive capacity was prepared by Mr. Bimal Jalan after discussion with the Area Departments and myself. I believe that you will find it of interest.

We have deliberately set it out along the same lines as last year. Among other things it is interesting to note the similarities in the estimates this year and last year despite the year's additional experience.

Attachment

cc: Mr. Jalan

~~1-2~~
0-2
(Asia Develop. Bank)

June 7, 1966

Mr. Woods

1220

You might be interested in glancing at the
attached.

Irving S. Friedman

Takeshi Watanabe's letter of June 1, 1966

Mr. Avramovic

June 7, 1966

Irving S. Friedman

Re your memorandum of June 6 and your letter to Mr. William Diebold, Jr. of International Economics Council for Foreign Affairs, would you please put off mailing this letter until we talk.

cc: Mr. Graves

Mr. Thor

June 7, 1966

Irving S. Friedman

Thank you for the translation of the cable from the Riksbank and the luncheon invitation from Mr. Joge. I will be very pleased to join him on Wednesday, June 15 at 12 noon. Thank you.

Irving S. Friedman

May 27, 1966

Mr. Karl E. Lachmann
Chief
Fiscal and Financial Branch
Department of Economic and Social Affairs
United Nations
New York, N.Y.

Dear Lachmann:

Thank you for the "Summary and Conclusions" of your report on Export Credits for the Financing of Capital Goods Requirements of Developing Countries, which you sent me on May 13.

Mr. Nespoulous-Neuville telephoned to your office on May 20. In your absence, he made his comments on this paper to Mr. Bencit, who said he would take them into account in a corrigendum to the text of the "Summary and Conclusions".

As concerns your main study on suppliers' credits, we understand that you will have to send it to the print shop in early June. At that time our own study will not yet be ready for publication; but our previous exchange of views, as well as the last telephone conversation between Mr. Bencit and Mr. Nespoulous-Neuville, show that there will be substantial consistency between the two studies. We will include references to your study where appropriate.

We understand that your main study will be published around September. Ours will probably appear about the same time. The timing, the cross-references and the complementary character of the two studies, will attest the coordination between us.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

MR HENRY J TACA
AMERICAN AMBASSADOR
RABAT

JUNE 2, 1966

First Class

MOROCCO

LOOK FORWARD TO SEEING YOU STOP WOULD YOU BE FREE FOR LUNCH THURSDAY JUNE
9 OR FRIDAY JUNE 10 STOP I AM LEAVING THAT FRIDAY AT 2:45 PM FOR EUROPE
STOP WARM REGARDS

~~FRIEDMAN~~ *Irving*
INTBAFRAD

Mr. Irving S. Friedman

The Economic Adviser to the President

Mr. George D. Woods

June 2, 1966

Irving S. Friedman

Speech, Airlie Conference - Brookings Institution

Brookings Institution is having again its so-called Summer Seminar publicly referred to as the Airlie Conference. It deals with the United Nations and tends to insist on people from various universities and centers of international studies. I have been asked to the lead-off Seminar which will be on Monday night. I have suggested that the topic be "The Need for New Relationship between Developed and Developing Countries."

I have not attempted to write a speech but have done an outline and am attaching a copy of it. If you have the time, I would appreciate very much having your reaction.

Attachment

June 2, 1966

Mr. Woods

Mr. Knapp

Mr. Wilson

Mr. Alderfeld

Mr. Broches

Mr. Demuth

The Annual Report of IDB for 1965

You may find the attached of interest.
report was issued March 16, 1966.

Irving S. Friedman

Memo prepared by Stanely Johnson of May 16, 1966.

Mr. Twining

June 2, 1966

Irving S. Friedman

With reference to our phone conversation today the phone number and address of Mr. Pompeo Giambi is as follows:

Italian delegation
2401 15th Street NW
Washington, D.C.

JUN 2 1966

Mr. Jalan and Mr. Hulley

1014

Would you please draft a reply to this --
and please check on the earlier correspon-
dence.

(request from Woods to draft reply to Spanish
Finance Minister - our 1964 copies of corr.
attached)

June 2, 1966

Dear Mr. Walls,

Thank you very much for the information on your lecture-seminars. I am bringing it to the attention of my colleagues to see whether we would be able to participate, and will be in further touch with you on this.

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

Mr. Merchante E. Walls
Special Programs Coordinator
Hudson Institute
Quaker Ridge Road
Harmon-on-Hudson
New York, 10520

Mr. Luis Machado

June 2, 1966

Irving S. Friedman

Thank you very much for your memorandum of June 1 attaching the copies of El Mercado de Valores. You were quite right in saying that we welcome all comments on our Supplementary Finance Scheme.

Need for New Relationship in Development Finance

A. Inadequacies of Existing Relationships

briefly

- (1) few successes (Thailand, Taiwan, Pakistan, Malaysia, Israel in Asia; Tunisia and Ivory Coast in Africa; Mexico in Latin America.)

many "so-so"

some failures (Indonesia, Ceylon; Ghana; Argentina, Costa Rica) --

(using per capita GNP growth rate as criterion.)

- (2) International tensions and hostilities among LDCs -- Pakistan/India hostilities -- Indonesia/Malaysia -- Viet-Nam -- Zambia/Rhodesia -- Israel/U.A.R. -- South Africa/Black Africa.
- (3) domestic, political and social instability in LDCs -- Argentina, Brazil, Colombia, Nigeria, Ghana, Uganda, Indonesia, Syria, Iraq, etc.
- (4) attitude toward donors:
- (a) open hostility - ex. burning of libraries - "IMF go home"
 - (b) resentments - ex. open and private statements of LDC leaders -- resent preaching, dictation, seeming hypocrisy, uncertainty, feeling of "poor cousin" relationship, etc.

B. Reasons for Inadequacies

- (1) Wrong expectations by all -- recipients and donors -- unrealistic, non-factual and non-analytical, emotional contrast between stated very high priority and actual priority for economic development in both DCs and LDCs, etc.
- (2) Anachronistic techniques -- odd mixture of pure sovereignty a la Hobbes, remnants of colonial paternalism, "international trusteeship" and true internationalism -- little that is mutually agreed, general and consistent.
- (3) Inadequate measurements or criteria:
- (a) what represents progress
 - (b) confusion between short-run and longer-run.
- (4) Unwillingness or inability to remedy faults -- widespread disillusionment and skepticism, if not worse, with foreign aid.

C. New Approach to Development Finance

(1) Fundamental Assumptions

- (a) Economic development must be at least sufficiently successful to give basis for reduced domestic and international tensions.
- (b) Economic development is in the interests of all countries -- recipients and donors - poor and rich.

- (c) Economic development must have very high priority in both DCs and LDCs -- equal to military, or domestic education and welfare, etc.
- (d) World is ready to move to new approach [evidence - reactions to Woods's Foreign Affairs Article; Supplementary Finance Scheme; statements by political leaders such as President Johnson, Secretary McNamara, etc.]

(2) Suggested Approach

- (a) New criterion for judging eligibility for foreign aid -- performance in development -- based on LDCs making economic progress in broad sense of term their highest priority -- not political behavior or posture -- economic criterion for judging "good government".
- (b) Continuity and certainty -- get adequate assistance as long as development performance is satisfactory.
- (c) Magnitudes of assistance -- external finance made available to extent of absorptive capacity for efficient productive investment -- not very large in fact -- natural limits -- first years will be relatively small, although growing and could use another \$4 billion per year during next five years.
- (d) Collective responsibility for providing assistance -- present system of "burden-sharing" essentially irrational and product of historical accidents; Examples: France is giving the highest ~~percentage~~ percentage of aid in relation to its national income, but it limits its assistance mainly to French-speaking countries; Portugal is a large donor in relation to its national income, but gives only to its dependencies. The U.S. is among the most generous aid donors as a percentage of its national income; yet, if some measure of progressivity in relation to income levels is used it comes out among the lower donors.

Aim to give certainty to performing LDCs by making external inflows independent of individual donor country position

- (e) Possible mechanisms for "collective responsibility"
 - (i) general understandings a la Fowler (can't be too vague or uncertain),
 - (ii) modified consultative groups approach -- differing creditors or donors for different recipients -- collective commitments related to each well performing LDC separately,
 - (iii) problem approach -- Example: supplementary finance, indebtedness clubs,
 - (iv) general multilateral approach -- IDA, IBRD -- (regional approach is modification of this one) -- covers all problems and potentially at least all countries -- but could be combined with partial collective approaches (example: Asian Development Bank in which LDC will have a strong voice, and in which several industrial non-Asian countries participate; IBRD makes performance judgments used by other more limited groups).
- (f) Mutual agreement on performance
 - (i) present technique of "bargaining" and "negotiation" -- unsatisfactory: The bilateral donor is most reluctant to apply performance criteria strictly, because of his fear of political "reprisals"; the recipient feels like being "blackmailed" by a foreign country using aid as a tool for political influence.

(ii) instead technique of mutual collaboration from beginning and continuing as long as aid needed in important quantities -- explain how could work. Pakistan is a good example of multi-stage relationship: Good national planning with the technical aid of a foreign non-government group (the Harvard group), elaborate discussion and follow-up by the Bank staff; annual meetings of a Consortium evaluates progress and coordinates aid.

Most recent example: Ceylon - first step - short-term multilateral aid to take care of immediate needs following almost disastrous situation; other technical aid to build up planning institutions; recent aid meeting for longer term development. Still in initial stages - May lead to Consultative Group.

(iii) international judgments on performance -- rule of law in this field based on experience and precedent -- bind recipients LDCs and donor DC alike - international judgment used whether partial or general collective approach.

D. Outlook

- (a) difficulties recognized in getting major change
- (b) optimistic signs
- (c) fortunately, partial progress possible -- but too gradual could mean too late.

Mr. George D. Woods

June 1, 1966

Irving S. Friedman

IDA Replenishment

1. You will recall that last year the staff had prepared extensive material on IDA replenishment including a study of the external capital requirements of the less developed countries. This material provided the basis for the memorandum of April 30, 1965 on IDA replenishment. The memo was in three parts. Part I dealt with the rationale behind concessional aid of IDA-type and the likely need for such aid during the next five years. It was argued that the acceleration of income growth in developing countries was critically dependent upon the amount of foreign assistance available to cover the financial gap that these countries were likely to experience -- to a varying degree -- in their efforts to achieve reasonable rates of growth. It was further suggested that in order to be effective, such assistance would have to be on concessional terms in view of the worsening indebtedness position of the developing countries as a result of the accumulated past debt on conventional terms, or the inability of very poor countries to service conventional debt. It was concluded that under prevailing conditions in the developing countries, conventional lending was a rather inefficient mechanism since a considerable share of gross disbursements leaks out of the recipient economy in the form of debt service. Concessional terms were, therefore, thought to increase the effectiveness of an "assistance dollar" for development, that is, the same amount of financial assistance given by a donor country went further in real resources than loans on conventional terms. On the basis of these considerations, the conclusion was reached that an increase in foreign assistance on concessional terms was desirable from the viewpoints of both donor and recipient countries.

2. Part II of the memo dealt with the question of IDA replenishment needs over the five years beginning July 1, 1966. It examined the need on two alternative hypotheses -- (i) continuation of the present IDA lending criteria, and (ii) liberalization of the present criteria. With the assumption, among others, that bilateral assistance would continue at the same level as in the past, it was felt that a minimum estimate of IDA needs for India and Pakistan alone could entail an increase in IDA over present resources of about \$200 million per year. On this basis, and taking into account the increasing needs of Africa as well as other countries, it was felt that a doubling or trebling of IDA from its present levels would be justifiable on economic grounds, if IDA were to continue to play approximately the same relative role that it had been playing in the past. If, however, some of the IDA eligibility criteria such as the per capita income criterion were to be relaxed -- which would make a number of countries in Latin America and Middle East eligible -- it was felt that needs for IDA funds could be considerably greater. Part III of the memo dealt briefly with some economic aspects of raising the funds for IDA replenishment, particularly those arising from a possible decision to increase IDA resources substantially.

3. The work that we did last year on the need for IDA-type assistance to developing countries thus centered around the following considerations -- (i) the available data and experienced judgment of the Bank staff indicated that the net foreign capital requirements of the developing countries were likely to be, for the balance of the decade, some \$3 to \$4 billion per annum higher than flows in the recent past; (ii) the feasibility studies of projects that were available, or were being carried out combined with the best judgment of experts in the Bank suggested that in the coming years effective use could be made of such larger external funds through Bank/IDA standard projects, and (iii) external indebtedness of a number of the developing countries had reached or was reaching dangerously high levels. For the developing countries as a whole, it was estimated that outstanding public and publicly-guaranteed indebtedness with a maturity of one year and over amounted to about \$33 billion at the end of 1964. It was further estimated that debt service obligations of developing countries (excluding liquidation of commercial arrears and similar short-term obligations) amounted to about \$3.5 billion. The debt formed about 15 per cent of the combined national product of these countries, and debt servicing about 12 per cent of their total export earnings; for some individual countries proportions were much higher.

4. These considerations were reflected in your written statement to DAC last year ("Proposals for Development Finance," July 13, 1965). This statement made a case in considerable detail not only for 'more' assistance but also for 'more assistance on concessional terms.' Similar views were expressed in your subsequent speech to DAC. As you know the outbreak of hostilities between India and Pakistan interrupted the IDA replenishment exercise. In the meantime, however, we have had discussions with U.S. officials on the balance of payments implications of replenishment as well as the desirability and feasibility of a large increase in IDA and have continued the background work to ensure our being ready to move when appropriate. We have not mentioned any particular figure for IDA replenishment to outside officials and have encouraged them to keep an open mind until the time was ripe for action on this.

5. Our continuing work this year on capital requirements, absorptive capacity and indebtedness problems of developing countries shows that these considerations in judging IDA replenishment have not changed since last year -- if anything, they have been further strengthened. As you know, the estimation of capital requirements is now -- whenever possible -- a part of our regular work on country reports and analysis, and our experience of the last year with individual country situation confirms our view that our estimate of \$3 to \$4 billion additional capital requirement is a conservative one. Similarly, our review of project possibilities confirms the judgment that a large part of this increment in aid flows to developing countries could be in the form of projects most of which could meet World Bank Group standards. Moreover, from the narrower standpoint of IDA, we find that this year's estimate for absorptive capacity for IDA funds for 1966-70 period is over 10 per cent higher than last year's estimate for IDA-countries in Africa, which after India and Pakistan are the most important borrowers of IDA funds. Recent optimism regarding economic policies of countries like Ghana, Ceylon, and possibly also the UAR and Indonesia has also pointed to the possibility that the absorptive capacity estimates of last year may prove to be an underestimate.

6. Our review of the indebtedness position of the developing countries, which we have been undertaking in connection with Part II of this year's Annual Report also confirms our earlier view that in many of the most hard pressed countries the indebtedness position has already reached dangerous proportions -- and what is more worrying, has been growing worse. The outstanding public and publicly guaranteed debt of the developing countries in 1965 is estimated at about \$35.4 billion at the end of 1965 compared with \$33 billion at the end of 1964; the combined national product of these countries has increased at a much slower rate. While compared to the previous years, some slowing down in the increase of indebtedness was achieved in Latin America, Southern Europe and Far East, countries in Asia and Africa (the main recipients of IDA funds) continued to increase their debt at a rapid rate in 1965. At the same time, debt service of all developing countries during 1965 increased to \$3.65 billion -- an increase of more than 4 per cent over 1964. Though we do not yet have complete figures for 1965 of capital flows to developing countries, the indications are that the total flow of official and private capital (net of amortization) has remained at about the same level as in the four previous years, i.e., about \$9 billion.

7. It is in this setting of increasing capacity of developing countries to absorb capital at a time when their capacity to service debt is not showing any significant improvement -- that the question of IDA replenishment has to be considered. Until now IDA has been a minor source of development finance -- even on a commitment basis it is below 5 per cent of official assistance, which at around \$6 billion net a year is recognized to be clearly inadequate by the donor countries themselves (for example the DAC resolution of July 1965 urging donor countries to increase their capital flows to at least 1 per cent of their national income) and the worldwide acceptance of our \$3-\$4 billion estimate). However, excluding grants, IDA is by far the most concessional form of development loans or credits and has demonstrated that it can be an effective form of external finance to countries with little capacity to service additional external debt. IDA experience indicates that it is possible to combine very concessional terms with insistence on good economic performance and productive use of the IDA credits. The basic decision with regard to replenishment is, of course, how important IDA should be in the future -- should it continue to play a minor role in the totality of investment finance or should it become a more important provider of finance in those countries which are most suitable for this type of financing?

8. There are a number of approaches that one can take to the question of IDA replenishment. Attached hereto is a detailed table summarizing the consequences of some of these alternatives on the size of the next IDA replenishment. Approach I or Estimate I, as it is called in the table, is based on the assumption that Bank and IDA as a group would continue to make the same proportionate contribution to India and Pakistan's future aid requirements as in the past but within the Bank/IDA total, there would be some shift from Bank to IDA. I have assumed Consortium aid in the future of about \$1.6 billion per annum for India and about \$600 million for Pakistan, (assuming, of course, that the outcome of the further review of India's Fourth Plan confirms our present thinking). Approaches II and III are based on the assumption of a shift in degree of emphasis from bilateral to multilateral aid to India and Pakistan. (This need not imply a decrease in the absolute amount of bilateral aid). Approach II assumes a shift only in the case of the U.S., Approach III for all donor countries. Approach IV is based on the assumption that bilateral and Bank contribution to India and Pakistan's total aid requirements would remain at the same absolute level as in the past and all increases would come via IDA.

9. These various approaches give us a range of \$542 to \$1,268 a year for all presently eligible IDA-countries over the next five years. It is to be noted that these estimates do not assume a relaxation of present IDA criteria for eligibility. If these criteria were relaxed, IDA would require an even greater magnitude. The essential difference between last year's calculations and the present is that last year we indicated the impact of liberalising of IDA criteria while in the attached figures the impact of shift in favor of multilateral aid is shown. This change in approach is made because of the greater responsibilities which the U.S. and other donor countries are asking the World Bank Group to assume. If the World Bank Group is to take the lead in judging economic performance and obtaining better performance in practice as well as leading consultative groups, e.g., present role in India, Pakistan, Ghana, etc., it would be in a much better position to do so, if IDA became relatively much more important.

10. Given this range, what should the precise figure for IDA replenishment be? This, of course, is a matter for donor countries to decide, but the IDA discussions could be started by suggesting that on the basis of the Indian and Pakistan discussions and keeping in view the increasing needs of other IDA-countries, especially in Africa, as well as the possibility of IDA financing for Ghana, Ceylon, UAR and Indonesia if it rejoins the Fund and the Bank, a figure of \$1 billion a year for IDA would be appropriate. It may be indicated that the figure is (a) administratively feasible without changing the character of the World Bank Group methods of operations and without large increases in administrative costs; (b) is consistent with the availability of Bank/IDA standard projects in presently eligible IDA countries, and (c) this would still leave considerable room for expansion in bilateral aid. The suggested figure of \$1 billion for IDA is not a minimum figure -- for there is no such minimum, IDA could remain in operation at its present levels; nor is it a maximum figure -- for the need for development finance on IDA-type terms is considerably higher. But it is a reasonable figure. Given the urgent need for more finance at terms much more concessional than hitherto for more and more countries, a significant increase in IDA would make a more than proportionate contribution to the tasks at hand. If the need for concessional assistance is recognized, it may prove to be much easier to channel funds through an international agency established only a few years ago for precisely that purpose than to transform in a major way the bilateral aid programs to a "softer" basis.

11. It may well be that when donor countries are sounded on the future size of IDA, they may prefer a much lower figure than \$1 billion. If, however, it is made clear from the beginning that the \$1 billion figure is a personal recommendation of the President of the Bank intended to give guidance to IDA donors as to need and practicality, it need not prove embarrassing. It would, of course, be more "cautious" to come out with a much smaller figure as a personal recommendation, say something like \$500 million per year, but this both runs the risk of foregoing a possible larger increase in IDA and weakens the case for further increases in the future. Also, if \$1 billion a year for IDA is considered sensible from an economic and financial viewpoint, but proves to be politically impractical, it may be possible to suggest various ways in which some of these difficulties might be overcome. For example, if the difficulties are seen as temporary, a shorter period for replenishment, say two rather than three years, might be suggested; or alternatively an ascending scale for increase in IDA resources may be suggested, that is, IDA resources increasing by an additional, say, \$100 million every year.

12. In considering the IDA replenishment, there is, of course, the question of IDA's possible impact on U.S. balance of payments. Even with some upward revision in the proportionate contributions of Germany, Japan, and some other European countries, the U.S. is still likely to be by far the most important single contributor (a table showing what each country's contribution would look like if their present contributions were to be multiplied by four to make up a billion for IDA is enclosed). We have already pointed out on a number of occasions that an increase in IDA contributions has no impact on the U.S. balance of payments until fiscal 1969. Moreover, it is fairly easy to work out a technique by which donor countries could be temporarily released from IDA obligations (these being assumed by other donor countries) in a way as not to interfere with the ability of IDA to carry on its business efficiently and responsibly. Our main concern with certain proposals in this field has not been with finding such a technique -- it could be done -- but rather that if IDA replenishment is tied to such suggestions, the IDA replenishment might be postponed too long. In the meantime we could be speaking to the Treasury both on our concern with tying these subjects together and how it might be handled if it was decided that there was no choice except to tie them. The Fund would presumably be concerned if judgments were needed on a country's balance of payments position.

Attachments

ISFriedman/BJalan/dm
6/1/66

June 1, 1966

Mr. Merlin Trued
Assistant Secretary
U.S. Treasury
Room 3434

Mr. Frederick L. Deming
Undersecretary of the Treasury for
Monetary Affairs
Room 3312

In light of Secretary Fowler's remarks
at Granada, you may be interested in glancing
at the attached memorandum.

Mr. Friedman's memo of March 1 to Mr. Woods
PA Replenishment and Balance of Payments Difficulties

Mr. Thor

May 31, 1966

Irving S. Friedman

Visit to Stockholm

I am planning to be in Stockholm on June 14 and 15, staying at the Grand Hotel. I will be coming from the BIS Annual Meeting in Basle, leaving there Tuesday June 14.

I am hoping to see Mr. Rooth in the early part of the evening of the 14th, and if they would like I would be happy to call at the appropriate Ministry and the Riksbank before my departure at 3 pm on Wednesday June 15.

MAY 31 1966

Mr. Stanley Johnson

1014

Mr. Schuller left this with me -- do
you have any reaction to it?

The World Bank and Non-Governmental Organizations
(Marked Draft - May 26, 1966)

May 31, 1966

Mr. Townsend Hoopes, D.A.S.D.
International Security Affairs
Room 4E842, Pentagon

I thought you might like to see the attached.
Any comments would, of course, be most welcomed.

May 27, 1966

To: Mr. Woods

^{VIEWS}
~~NEWS~~ You will recall that you asked for some
news by the time of your return.

I thought you might wish to see this
before Tuesday particularly in view of the
NASA trip.

I hope to have an IDA replenishment
memo for you on Tuesday.

We are also bringing up to date our
absorptive capacity memo of last year.

Irving S. Friedman



Record Removal Notice

File Title Irving S. Friedman - Chronological File - 1966 Correspondence - Volume 2		Barcode No. 1598698		
Document Date 5/ ²⁷ / 26 /1966	Document Type Memorandum			
Correspondents / Participants To: George D. Woods From: Irving S. Friedman				
Subject / Title Proposal on India and Pakistan Defense Expenditures				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence				
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			

Mr. Graves

453

Does this seem the right way to
handle this?

May 26, 1966

Dear Mr. Bisch,

Thank you for your letter of May 21, 1966, questioning the quotation from my July 21 speech made at the International Economic Association conference here in Washington.

The quotation was, of course, incorrect.

I am enclosing a copy of the full text of the speech and on pages 5 and 6 you will see that your correspondent is quite correct.

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

Mr. Jorgen Bisch
Sehesteds Alle
Farum
Copenhagen, Denmark

Mr. J. M. Stevens

May 27, 1966

Irving S. Friedman

Visit to London, June 15 to 18, 1966.

I will be attending the BIS Annual Meeting in Basle from June 11 through June 13 staying at the Schweitzerhof.

I plan to visit Stockholm, principally to pay my respects to Ivar.

I hope to be in London from Wednesday, June 15, to Saturday, June 18, arriving on BEA #759 at 5:15 p.m., and leaving on PA #107 at 2:30 p.m.

I would like very much to see some of my old friends and acquaintances in London such as Rickett, Goldman, Hubback, Cairncross, Pitblado, Eric Roll, Douglas Allen, Streeter, Robin Marris, James Mark and, of course, our friends in the Bank of England. Obviously I would be happy to see any others whom your people thought I should see. I wonder if ~~it~~ it would be possible for someone at the Bank to set up a schedule of appointments for me with those that may be free.

May 27, 1966

Dear Ivar,

Thanks very much for your letter of May 18. I hope to see you and Ingrid soon. At present I'm scheduled to attend the BIS Annual Meeting and will be in Basle at the Schweitzerhoff from June 11 to 14, and leave on Tuesday, June 14, by Air France #794 arriving Stockholm 2:45 pm that same day. I have booked into the Grand and will get in touch with you from there.

There is lots to talk about. I hope you will be feeling much better and look forward to seeing you.

Sincerely,

Irving S. Friedman

Mr. Ivar Rooth
Larsbergsvagen 13, Lidingo 1
Stockholm, Sweden

May 27, 1966

Dear Mrs. Posner,

Thank you for your letter and enclosure
of May 25, 1966.

Your "game" on first glance looks very
interesting and I look forward reading it.

Yours sincerely,

Irving S. Friedman

Mrs. James M. Posner
59 Old Mamaroneck Road
Apt. 6C
White Plains
New York, N.Y. 10605



Record Removal Notice

File Title Irving S. Friedman - Chronological File - 1966 Correspondence - Volume 2		Barcode No. 1598698		
Document Date 5/26/1966	Document Type Memorandum			
Correspondents / Participants To: R. A. Clarke From: Irving S. Friedman				
Subject / Title Mr. Don Lester Waage				
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			

L-1

May 27, 1966

Dear Mr. Mathiasen,

Thanks for the arrangements you have made to get me to the opening of the Summer Seminar - I appreciate it very much.

As we agreed on the phone I will pick up the Airlie car at the General Aviation (PAGE) Terminal at National Airport. My flight is due in at 7:45 pm daylight time.

I note in your letter that you would like a copy of my curriculum vitae, which is enclosed herewith. As you can see, at this age, I believe that academic record is rather anachronistic! However, if you need it, I can be referred to as "Dr." on the strength of a Columbia U. Ph.D.(1940).

Looking forward to meeting and seeing you,

Yours sincerely,

Irving S. Friedman

Mr. Karl Mathiasen III
Senior Staff
The Brookings Institution
1775 Massachusetts Avenue NW
Washington D.C. 20036

Nigeria

Mr. Kamarck and Mr. de Vries

May 26, 1966

Irving S. Friedman

Nigerian Consultative Group Meeting - memorandum from Mr. Avramovic

Leaving aside the emotion I think this memorandum is worthy of serious thought. In it you will note that obviously it may be taken as a comment on the function and scope of economic missions.

When you are ready to discuss it please let me know - we may include Mr. Avramovic in the discussion.

What would you say about his comments on the Nigerian Debt Study?

Attachment

S. C.

Mr. Michael Hoffman

May 26, 1966

Irving S. Friedman

Letter of May 18, 1966

Just a brief note to say that I find your letter of May 18 to Dick most interesting.

I have taken the liberty of making a copy of it for Messrs. Nespoulous-Neuville and Hulley and have asked them to consider your letter as in effect a comment on our Suppliers' Credits Study. You therefore may be hearing further from them on this matter.

cc: Mr. Demuth

CE - Argentina

Mr. Avramovic

May 26, 1966

Irving S. Friedman

Thank you for sending me a copy of your memorandum of May 24 to Mr. Hoffman. I think you might be interested in seeing the attached copy of the memorandum which I wrote to Hoffman.

Attachment

May 26, 1966

Dear John,

Thank you for your letter of May 13. Like yourself I kind of feel superstitious about any invitation to address one of your group -- it would be breaking a cultural pattern to refuse! Therefore I will accept your invitation and suggest either Thursday July 21 or Friday July 22. However, I must say that there is an outside chance that I will not be in the country at that time.

If you are willing to have me accept on this basis I will be glad to do so. If I am not able to come I would see to it that a more than adequate substitute from the Bank came in my place.

I thought the subject might be Recent Trends in Development Finance, as it covers a lot more area. However, if you prefer your suggested title it is fine with me. If the above meets with your OK I will arrange to fly up around lunch time.

With warm regards,

Yours sincerely,

Irving S. Friedman

Mr. John P. Powelson
Graduate School of Public and
International Affairs
University of Pittsburgh
Pittsburgh, Pennsylvania 15213

P-1

May 26, 1966

Dear Mr. Inoue,

Thank you very much for your letter of May 9 and may I send my best wishes for your continued success as Manager of the Nagoya branch.

It was very nice to hear from you and if the opportunity arises to visit Nagoya I shall be very happy to see you.

With best regards,

Yours sincerely,

Irving S. Friedman

Mr. Shiro Inoue
Manager
The Bank of Japan
Nagoya, Japan

ABA

May 26, 1966

Dear Charls,

Thank you for your invitation to attend the Convention in San Francisco and I am hoping to be able to do so.

My job at the Bank as The Economic Adviser to the President has proven to be most interesting although demanding in time and energy. I feel that I have finally reached the point where I am no longer a complete novice and have become deeply involved in both the general and country problems of the Bank, and more broadly, the problems of development finance.

It would be most enjoyable to have a chat and I would be glad to have you join me for lunch at any time that you visit Washington.

Yours sincerely,

Irving S. Friedman

Mr. Charls E. Walker
Executive Vice President
The American Bankers Association
90 Park Avenue
New York, N.Y. 10016

P-1

May 26, 1966

Dear Mr. Davies,

I would like to take this occasion to express my support for what you are trying to do in establishing an international country club. It has been a development which I have advocated for many years. I think it is much needed.

I do wish to express my appreciation for the time which you and others are giving to make this a reality.

At present my family and I are quite happy with the club to which we belong but we might well conceivably join this new club when it comes into being.

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

Mr. Richard L. Davies
Secretary
Suite 1140
1001 Connecticut Avenue NW
Washington D.C. 20036

MAY 25 1966

Comparison of India and Pakistan

Appendix A

1. GNP (show absolute and % increases - 5 years)
2. GNP per capita
3. National income
4. National income per capita
5. Total government expenditures
 - (a) central
 - (b) provincial
 - (c) total
6. Total capital expenditures
7. Non-developmental public expenditures
8. Investment:
 - (a) public
 - (b) private
 - (c) total
9. Consumption:
 - (a) private
 - (b) public
10. Savings:
 - (a) private
 - (b) public
 - (c) total
11. Balance of Payments
 - (a) deficits
 - (b) foreign aid
 - (i) Consortium
 - (ii) Other

Appendix B

Comparison of defense expenditures (last 5 years and projected 1965/66 and 1966/67) with:

1. GNP
2. National income
3. Total government expenditures
4. Total capital expenditures
5. Non-developmental public expenditures

6. Investment

- (a) public
- (b) private
- (c) total

7. Consumption

8. Savings

9. Balance of payments deficits

10. Foreign aid

DRAFT
May 24, 1966

India and Pakistan Defense Expenditures

India and Pakistan defense expenditures are in many respects two distinct questions. It is, of course, quite conceivable that the present level and prospective level of expenditure for each country can be judged separately in light of the economic circumstances of each country. On the other hand, any attempt to bring about a cessation to the upward spiral of defense expenditure in both countries involves dealing with both of them simultaneously as well as comparatively.

In the case of both of these countries it is clear that any expenditure on defense is non-economic and represents a reduction in the level of economic development that would otherwise be possible. Whatever may be said about how any increases in defense expenditure are financed, the fact remains that they must bear the expense of either domestic consumption or investment. Given the low levels of consumption any increase in taxation for non-developmental purposes quickly results in a reduction in the amount of resources available for development. The only way in which defense expenditure can avoid being a drain on development is by having at least all of the development expenditures both domestic and external offset by increases in foreign aid on a grant basis. Military expenditures may well lead to an increase in consumption but it does not have its counterpart in any productive activities and is, therefore, at the expense of output and growth.

These arguments may imply that any expenditures on defense are intolerable. In the sense that they divert resources to non-economic ends, any such expenditures are, from an economic point of view, intolerable. On the other hand, the protection of a country's sovereignty and territorial integrity is also of a high priority and indeed necessary to achieve

economic as well as non-economic purposes. The question then is how much defense expenditure and how to judge whether they are "too high." This judgment depends on what a particular country's defense needs are. Comparisons with other countries are only helpful to the extent that these other countries affect the military needs of a country. As a rough answer it may be said that the aim is to pursue both economic and defense expenditures with the least harm to the other. The economic judgment is how to pursue defense aims so that they would be least injurious to development.

In trying to determine the possible impact of the defense expenditure on development it is possible to think in terms of breaking down such defense expenditures and activities and seeing their particular effects on the economy, for example, impact on transportation from requisitioning of trucks, the impact on production and export of use of non-ferrous metals which may be in short supply, or the impact on export capacity of diversion of certain skilled labor to armed production or to service in the armed forces. Such analysis is very time consuming however useful. It also involves a great deal of detailed knowledge of a country. Although less precise in many respects it is probably useful enough to look into the problem from the point of view of overall national indicators. National indicators which have been looked at in connection with this problem are the relation of defense expenditures to gross national product, national income, gross investment, savings, foreign aid, current budget expenditures and total budget expenditures. The gross ^{national} domestic product and the gross national ^{income} product of India and Pakistan are both among the lowest of the world per capita. Gross national product per capita amount to _____ in India in 1965 and _____ in Pakistan. The ^{corresponding} figures for national income were _____ AND _____. In these countries there is simply no fact in the economy. Despite the

evidence of traditional forms of wealth, such as land, jewels and homes, these amounts are very small in comparison with the expenditure in the defense field -- even if it were to be assumed that the Government could in some way or other use part of the wealth for defense. Therefore, defense expenditure must essentially come out of current output plus foreign assistance not from past accumulation of wealth.

Both of these countries are currently dependent on foreign assistance. In India foreign aid represents ____% of the amount available for investment. In Pakistan the corresponding figure is ____%. In view of the low levels of output, these countries are likely to continue to be largely dependent on foreign assistance for many years. Thus any defense expenditures are in the last analysis made possible by the inflow of foreign aid. Without this foreign aid the ability of these countries to carry on a defense program would be greatly reduced. If it is assumed that some economic growth is an absolute prerequisite for a successful government, it may be said that without foreign aid there could be no defense expenditures. It may be noted that ^{the} present level of India's defense expenditure at about \$1.9 billion per year is nearly twice the amount of resources being mobilized by the Indian Consortium. In the case of Pakistan comparable defense expenditure amounts to \$ _____ which also amounts to \$ _____ of foreign aid. Seened from the point of view of total absolute resources on the balance of payments gap, without foreign aid the defense expenditure would be intolerable.

This emphasis on foreign aid not only points to the vulnerability of the defense program to some criticism particularly by large aid providers it also raises the question of whether the increase in the defense expenditure will some day seriously impair the ability of India to obtain needed foreign assistance for development. More and more the providers of development

assistance to India and Pakistan are insisting that such assistance be based on improved economic performance and some evidence of growing output and rising per capita income. The increased armed program in both countries raise a serious doubt as to whether this improved economic performance will be achieved or whether disappointment will again be felt in the performance of these two countries. Thus the increase in defense expenditure could, after a number of years, result in a new period of disillusionment and disappointment with serious consequences for the provision of aid for development.

The present and anticipated levels of defense expenditure for India and Pakistan mean slower growth ratios, inflationary pressures even if burdensome tax increases are carried through in Government controls over the economic life of the country, a retardation in investment in both the public and private sectors, eliminating hopes of any rise in living standards for many years and increased pressures on the balance of payments. It would mean achieving the economic basis for continuous social and political stability. Thus it is felt that neither India nor Pakistan can afford to divert resources on defense expenditures except for that regarded as absolutely essential. To put it in other words, every effort should be made to find the minimal essential levels of defense expenditure. From a balance of payments point of view, it is also essential that these countries not increase their external indebtedness to finance defense expenditures. Their indebtedness position is already most troublesome and worrisome. It is for essentially these reasons that the following recommendations are made.

Before proceeding to the recommendations it may be mentioned that little has been said about comparing India and Pakistan with other countries. Such material has been brought together, and many interesting comparisons can be made. (See attached table). However, it is dangerous to draw any clear conclusions from these comparisons since countries differ so much in not

only what they can afford to do but also in the priority given to defense expenditures and their needs for such defense expenditures.

DRAFT
May 24, 1966

India and Pakistan Defense Expenditures

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In trying to determine the possible impact of the defense expenditure on development it is possible to think in terms of breaking down such defense expenditures and activities and seeing their particular effects on the economy, for example, impact on transportation from requisitioning of trucks, the impact on production and export of use of non-ferrous metals which may be in short supply, or the impact on export capacity of diversion of certain skilled labor to armed production or to service in the armed forces. Such analysis is very time consuming however useful. It also involves a great deal of detailed knowledge of a country. Although less precise in many respects it is probably useful enough to look into the problem from the point of view of overall national indicators. National indicators which have been looked at in connection with this problem are the relation of defense expenditures to gross national product, national income, gross investment, savings, foreign aid, current budget expenditures and total budget expenditures. The gross ^{national} domestic product and the gross ^{income} national product of India and Pakistan are both among the lowest of the world per capita. Gross national product per capita amount to _____ in India in 1965 and _____ in Pakistan. The ^{corresponding} figures for national income were _____ AND _____. In these countries there is simply no fact in the economy. Despite the

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The present and anticipated levels of defense expenditure for India and Pakistan mean slower growth ratios, inflationary pressures even if burdensome tax increases are carried through in Government controls over the economic life of the country, a retardation in investment in both the public and private sectors, eliminating hopes of any rise in living standards for many years and increased pressures on the balance of payments. It would mean achieving the economic basis for continuous social and political stability. Thus it is felt that neither India nor Pakistan can afford to divert resources on defense expenditures except for that regarded as absolutely essential. To put it in other words, every effort should be made to find the minimal essential levels of defense expenditure. From a balance of payments point of view, it is also essential that these countries not increase their external indebtedness to finance defense expenditures. Their indebtedness position is already most troublesome and worrisome. It is for essentially these reasons that the following recommendations are made.

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only what they can afford to do but also in the priority given to defense expenditures and their needs for such defense expenditures.

Messrs. Pereira-Lira and Jalan
Irving S. Friedman

May 23, 1966

Supplementary Finance Study

On the basis of our discussion and your list of questions, please prepare a list of subjects which you think we ought to start working on immediately. This list should include either important matters which will take considerable time to finish or which are a prerequisite to going on to other subjects.

I am a little worried that we have not yet begun to farm out the work to others.

cc: Mr. Frank

May 23, 1966

Mr. Wishart

I think this might be brought to Mr. Woods's attention if it has not already been done.

Irving S. Friedman

Forward
Editorial "Two Steps Forward" from Journal of Commerce of May 18, 1966

May 20, 1966

Mr. Hulley

Mr. Jalan

Attached only for your personal and
strictly confidential use.

Irving S. Friedman

IDA REPLENISHMENT note

IDA REPLENISHMENT

WBG ARCHIVES

1. The less developed world could use \$3-4 billion of additional development finance effectively. Our review work this year confirms this estimate. If anything, it is somewhat on the low side. (check de Vries)
2. Our review of project availability indicates that this large proportion of this increment (say \$2 billion?) could be in the form of projects most of which could properly meet World Bank Group standards. (check Jalan)
3. The programs for India and Pakistan indicate that for the next three years there may be a need for additional funds from members of the Consortia of about \$600 million per year (check Stevenson) -- \$400 million for India and about \$150 to \$200 million for Pakistan, assuming that the outcome of the further review of India's 4th Plan confirms our present thinking. Given the needs of the rest of the world including the possibility of new development assistance for Indonesia, e.g. Nigeria, Ghana, UAR, Malaysia, Brazil, Chile, etc., it would seem conservative to say that an increase in the development assistance of another billion dollars is a minimum called for for the rest of the world (i.e. excluding India and Pakistan). At present the Indian and Pakistani aid requirement programs account for about 25% of the total development assistance. (check Kalmanoff or Kochav)
4. It would therefore be possible to start the IDA discussions by suggesting that on the basis of the outcome of the Indian and Pakistan discussion there may be a need of another \$600-700 million of development assistance in one form or another for these two countries, and it would seem most incautious not to assume at least an equivalent amount for the rest of the world. A figure of \$1.5 billion of increased development aid from all Western donors might be used. The Bank could then indicate a rough apportionment of this \$1.5 billion increase assuming approximately the same proportions in providing foreign assistance as now prevail with perhaps some correction for the difficulties of the U.K., the strength of Germany and Japan and the willingness of the world to say that France already gives more than the one per cent of the national income commitment. Attached hereto are possible apportionments of this \$1.5 billion increase comparing it with the present apportionment.
5. The President of the Bank could then take the position that in order for IDA to more or less do the same kind of limping job it has done until now, it has to be at least doubled, i.e. another \$250 million per year from the IDA members. This would be necessary if the World Bank Group is to make about the same proportionate contribution to India and Pakistan, permit the needed liberalization in terms for these two countries and permit some increase in IDA lending to other countries so that the India-Pakistan slice remains about the same proportion of the whole. (Jalan make more precise) This could be the rock bottom figure which together with the World Bank contribution would make available for IDA somewhere in the magnitude of \$550 to \$600 million per year assuming of course that the World Bank was still willing to make that kind of contribution to IDA.

6. The World Bank President could then indicate that, as far as he was concerned, any of the amount of additional development assistance required over and above this rock bottom figure for IDA could be given on a bilateral or multilateral basis via IDA depending on the wishes of the country. Each country could judge for itself how to meet the total need figure; the proportion of multilateral as against bilateral aid could vary from country to country. In this way, the Bank President would make clear that his primary concern was in helping to ensure that at least minimum funds for development were available and that his interest in the strengthening of IDA as such was secondary, particularly if the bilateral assistance could be given on terms much closer to IDA terms. He could say that IDA would administer a much larger figure than the rock bottom figure if countries so wished. (Countries already know that he considers aid via IDA as an effective and efficient way of extending truly development finances). He might well indicate that from an administrative point of view IDA committing even a billion dollars a year could still be kept a small organization merged in practice with Bank operations and operating with the present high standards.

SC

May 19, 1966

Mr. Knapp

Mr. Wilson

Mr. Aldsworth

Mr. Broches

Mr. DeLoach

Attached is the draft of the Suppliers' Credit Study, Part I. I hope you do not mind my sending it to you only for information at this stage.

Irving S. Friedman

May 20

Mr. Nespoulous-Neuville

Please let me have a reply.

Irving S. Friedman

Letter from Mr. Lachmann, Chief, Fiscal and Financial Branch, UN Dept. of ECOSOC Affairs
dated May 13, 1966 EC 331/2 (19)

May 16, 1966

Mr. Jalan	1013
Mr. Johnson	
Mr. Friedman	1223

Special Loan Statement

Please glance at this and return. I would like for you to be familiar with this document.

Irving S. Friedman

Mr. Clifford F. Owen

May 17, 1966

Irving S. Friedman

Attendance at Economic Committee Meetings

I am somewhat disturbed about the large attendance at the Economic Committee meetings by people who are not members and who are not participating in the discussions. I do not want to be too strict but do believe that everyone there should come only if authorized by a Director or Deputy Director of a Department. As for my own group, I think they should have my prior permission.

Please circulate this note to all Departments concerned including my own group.

Thank you.

*uw
Coco*

May 16, 1966

Mr. Demuth

For your initials and passing on to Mr. Woods.

For information, I tried to reach Dr. Prebisch
but he is in Geneva.

Irving S. Friedman

VW
Cocoa agreement

May 16, 1966

Dr. Raul Prebisch
Secretary-General
U.N.C.T.A.D.
United Nations, New York

Dear Dr. Prebisch:

I was glad to see you and Mr. Judd last week and to discuss with you your plans on the proposed cocoa agreement. As you know, I attach great importance to the export problem of the developing countries and believe that successful commodity arrangements can make a substantial contribution to orderly economic growth. I hope that your efforts to work out a satisfactory commodity agreement to deal with the troublesome question of cocoa will be fruitful.

As I explained in the course of our conversation, participation in commodity agreements through financing buffer stocks is outside the sphere of the Bank or its affiliates; our operations are confined to providing long-term funds for productive development projects. In this way, we hope to promote the modernization and diversification of economies and exports which I am sure that you will agree is the ultimate solution for the "commodity problem."

I want to convey my warmest wishes for a successful conclusion of the forthcoming Cocoa Conference.

Yours sincerely,

George D. Woods

cc: Mr. Demuth

ISFriedman/AMKamarck/RHDemuth/hls



Record Removal Notice

File Title Irving S. Friedman - Chronological File - 1966 Correspondence - Volume 2		Barcode No. 1598698		
Document Date 5/16/1966	Document Type Memorandum			
Correspondents / Participants To: Mr. Woods From: Irving S. Friedman				
Subject / Title Meeting with India and Pakistan with Messrs. Hoopes and Haynes - U.S. Defense Department				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence				
Additional Comments		<p>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.</p> <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			

Mr. L.M. Hansen

May 16, 1966

Irving S. Friedman

Ghana

I have no comments on the draft Minutes except to say that please do not set them up as a special meeting of the Economic Committee on Ghana. I would rather they be written as a Minute to Files, indicating those present and that it was held in my office.

Mr. El Emary

May 16, 1966

Irving S. Friedman

Ghana meetings

In the absence of Mr. Kamarck I would appreciate your contacting Mr. de Vries and asking him to indicate who in the Economics Department should attend the Ghana meetings. Thank you.

cc: Mr. de Vries

MISC

May 16, 1966

Dear Mr. Evans,

With reference to your letter of May 9, I regret that your application for summer employment cannot be considered at this time. Over 200 applications have been received for such jobs, and additional ones cannot be processed.

If you are interested in a summer job with the Bank next year, I would suggest that you file an application in the early part of the year.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. Charles H. Evans
Welch Hall
Ohio Wesleyan University
Delaware, Ohio

P - 1

May 16, 1966

My dear Alberto,

Thank you very much for forwarding the pictures to me. Edna and I are very pleased to have them. They are lovely souvenirs of our trip to Buenos Aires and more particularly the delightful times we had with various members of your family.

I must say that your brother Eduardo looks much more serious in the picture than he actually was - perhaps the same could be said of the picture of me.

Please convey our thanks to your brother and our warmest regards to all your family,

Sincerely,

Irving S. Friedman

Mr. Alberto Ayerza
IMF

Mr. Woods

May 13, 1966

Irving S. Friedman

Proposed Discussion between IBRD and UK Officials on Suppliers' Credits

Attached hereto is a draft of our suppliers' credits study, without the factual appendices which will give the background material. Preliminary soundings among creditor countries indicate that the British are the leading exponents of an approach alternative to the one we are working on.

The British recommendation is to avoid cut-throat credit competition by maintaining a clear distinction between trade credit and development finance. They are the strongest supporters of the Netherlands proposal for a "Neutral Zone", currently being studied by OECD. According to the proposal, aid credits of less than 15 years should be prohibited. The zone would separate them from trade credits which should not mature longer than 8 years after delivery; the absolute maximum for exceptional cases would be 10 years.

If this proposal were adopted, the credit flow to developing countries might well decrease, unless official aid were enlarged enough to compensate. France, Italy and the US are opposed to this approach to the supplier credit problem.

British concern about differences of view between the Bank and themselves was expressed in the letter from the Earl of Cromer to you on April 22, regarding joint financing. In that letter, as in your reply of May 4, it was anticipated that Bank views would be expressed in its study for UNCTAD on suppliers' credits.

The solution proposed in our draft study is to establish some kind of private international financing in the 8 to 15-year zone. This would do much to resolve the problem of competition between exporting countries, while meeting the needs of developing countries for more finance in that range of maturity. Incidentally, such a solution would facilitate joint financing.

I think however, that it would be useful for our staff to have some informal discussions with the British officials on these matters in the near future. In this way we would get a better understanding of their position before the completion of our draft and they would have a better idea of why we feel the way we do. In all these discussions it has been made clear that the views expressed were those only of the staff members working on the subject.

If you have the time, I would appreciate having your comments on this before distributing to the others.
Attachment

May 13, 1966

Dear Mr. Marquez,

I was glad to receive your letter of May 6, 1966, informing me of the work which CEMLA is doing on compensatory financing.

I have asked Irving Friedman to reply to this letter and am sure you will be hearing from him soon.

Sincerely yours,

George D. Woods

Mr. Javier Marquez
Director
Centro de Estudios Monetarios
Latinoamericanos
Durango Num. 54
Mexico 7, D.F.

ISFriedman:dm
5/12/66

Mr. Owen

May 12, 1966

Irving S. Friedman

Circulation of Mr. Hoffman's Memorandum

Would you please circulate the attached memorandum "Technical Assistance Reports for Consultative Groups" to the Economic Committee from the Chairman, with the following note:

"I believe this will be of general interest and am planning to have an Economic Committee discussion on it in the near future."

Mr. Donovan

May 11, 1966

Irving S. Friedman

Dining Room Charges - March 1966

It would be appreciated if you would let me know if the following luncheon guests should be charged to representation or my personal account. If the latter is the practice I will be pleased to pay it.

- March 17 - Mr. Kochman - Executive Director, Bank
- " 28 - Mr. Altman - Treasurer, IMF
- " 29 - Mr. Saad - Executive Director, Fund.

With regard to the \$1.75 for cookies I don't know what this charge is for, but they are used for guests only.

Thank you.

Preliminary

May 12, 1966

Mr. Demuth

845

Do you have any comments on this?

Irving S. Friedman

DRAFT

May 12, 1966

Dr. Raul Prebisch
Secretary-General
U.N.C.T.A.D.
United Nations, New York

Dear Dr. Prebisch:

I was glad to see you and Mr. Judd last week and to discuss with you your plans on the proposed cocoa agreement. As you know, I attach great importance to the export problem of the developing countries and believe that successful commodity arrangements make substantial contribution to orderly economic growth. I hope that your efforts to find an answer to the troublesome question in the marketing of cocoa will be fruitful.

As I explained in the course of our conversation, participation in commodity agreements through financing buffer stocks is outside the sphere of the Bank or its affiliates; our operations are confined to the purpose of providing long-term funds directly related to the carrying out of development projects. In this way, we hope to promote the modernization and diversification of economies and exports which I am sure that you will agree is the ultimate solution for the "commodity problem."

I want to convey my warmest wishes for a successful conclusion of the forthcoming Cocoa Conference.

Yours sincerely,

George D. Woods

IFriedman/AMKamarck/hls

MISC

May 12, 1966

Dear Javier,

Mr. Woods has asked me to reply to your letter of May 6, a copy of which you kindly sent to me.

I am enclosing some material which I believe you will find useful. You may have seen some of these before, particularly the copy of our Study, but I wanted to make sure that you have it.

We have been very gratified with both the official and private reaction to the Study. As you know an intergovernmental working group is being established to study further and elaborate our proposed Scheme. We expect to be doing quite a bit in helping the work of this group. Incidentally, I think it would help a lot if our Proposal was not put in the category of "compensatory financing". This is done very commonly but it can be misleading. As you will see, it is a very important point in understanding our Proposal that it is motivated by a desire to provide needed development finance for a developmental purpose. It is essentially not a balance of payments measure in the ordinary sense of the word or in the sense of compensatory financing.

If I can be of further help in the preparation of your work on this please let me know. In any case I hope to have the pleasure of seeing you somewhere soon.

With warmest regards to you, Maria Theresa, and others.

Yours,

Irving S. Friedman

Mr. Javier Marquez
Director
Centro de Estudios Monetarios Latinoamericanos
Durango Num. 54
Mexico 7, D.F.

MISC

May 12, 1966

Dear Mr. Reimann,

Thank you again for your invitation to the reception. I am afraid that I will not be able to address your group as much as I would like to. My present schedule calls for me to be in Europe that week. If, by any chance, there is a last minute change in my schedule, I will take the liberty of attending your reception.

I am sure the reception will be a great success and with my congratulations on your new projection,

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

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

Mr. Stanley Johnson

May 12, 1966

Irving S. Friedman

U.S. Dollar Holdings

I would like to have a table showing the U.S. dollar holdings of the less developed countries showing the latest figures and those for 1965, 1964 and 1963.

Misc

May 12, 1966

Mr. de Vries

000

I would like to reply immediately to this
and would appreciate your help.

If you perchance have anything possible,
perhaps we could get Eschenberg's quick
reaction.

Irving S. Friedman

letter for summer employment
Charles H. Evans of May 9, 1966

AR

May 12, 1966

Mr. Kochav

1035

How do these figures, particularly those
in Tables 2, 2 and 4 compare with the
figures used in our draft Annual Report?

I should like to have an extra copy of
the draft Annual Report.

Irving S. Friedman

SM/66/44 Supplement 2 May 10
From IMF Secretary to Members of Executive Board
WORLD PAYMENTS SITUATION.

Mr. Clifford F. Owen

May 9, 1966

Irving S. Friedman

Economic Committee Meetings

In cases wherein the Economic Committee does not meet on a country, I hope you would make arrangements to see to it that the Fund people are aware that we are considering countries without a formal meeting of the Economic Committee, and, in one way or another, have a chance to participate if they so desire.

SFS

Messrs. Pereira-Lira and Jalan

May 9, 1966

Irving S. Friedman

Supplementary Finance

I would like to have a list of subjects no later than tomorrow morning on which we have to have assignments agreed on Supplementary Finance and would like to meet with you and Mr. Isaiah Frank on this tomorrow morning at 11 a.m.

cc: Mr. Isaiah Frank

~~A-2~~
MISC

Mr. Donovan

May 6, 1966

Irving S. Friedman

Air Conditioners

I would very much appreciate the installation of one or two air conditions in my office. Having been in this office for over 12 months now I have repeatedly found the temperature most difficult, especially during sunny afternoons and when holding a meeting.

Last summer the engineer came up and tested and increased the volume of cold air, but also explained that the older section of the building was not as efficiently cooled as the newer.

Would you please expedite this matter for me. Thank you.

India

Mr. George D. Woods

May 9, 1966

Irving S. Friedman

Indians' Conversation with Mr. Linder

Mr. Linder had telephoned the other day to find out where we were in our discussions with the Indians as he was expecting a visit from Mr. Mehta and Ambassador Nehru. Today he telephoned to give the gist of his conversation with them. I told him I would be passing the information on to you.

The Indians said that they would like from him a commitment of an undecided amount. If this commitment was forthcoming, they would be willing to forego any further requests for 1967-68 and 1968-69. The ExIm had been thinking in terms of \$50 million per year for India, and Mr. Linder assumed that the Indians had in mind \$100 to \$150 million. He said that he explained to them that he could not earmark such a large sum. With respect to refinancing, he was reluctant to do this and would rather follow the pattern set by the World Bank of an equivalent amount of new loans -- in this case, project loans. He felt that the Indians did not regard his reply as satisfactory, and they indicated that they would be back.

Mr. Linder also raised with them the question of the refunding of the Soviet debt. The Indians took the position that this was not comparable since the Soviets were prepared to take Indian exports which could not be sold in the West, and they were not too much in a hurry to receive them.

I gathered that Mr. Linder is still reluctant to think of refunding but is aware of the pressures on the Indians to obtain sufficient balance of payments' support for their contemplated new measures.

cc: Mr. Knapp
Mr. Bell

Mr. M. M. Mendels

May 6, 1966

Irving S. Friedman

UNCTAD Committee on Invisibles and Financing Related to Trade - Report
on Resumed First Session.

Would you kindly obtain four copies of the above Fund document
SM/66/55 for my use.

Thank you.

Enclosure

May 6, 1966

M. Moore
Dear Friend,

With reference to your letter of May 2, enclosed is my check in the amount of \$25 toward the construction of a workshop at Sandy Spring Friends School.

Mrs. Friedman and I are in full accord with your conviction that an adequate building is necessary for the manual arts and hope that your campaign will be successful.

Sincerely yours,

Irving S. Friedman

Enclosure

Mr. S. Brook Moore
Director of Development
Sandy Spring Friends School
Sandy Spring, Maryland 20860

May 6, 1966

My dear Pierre-Paul,

I would like to express my best wishes to the Fund on this occasion of its 20th Anniversary. I can well remember the first meeting and how excited we all were that this baby had finally begun to walk.

Those of us who have been fortunate enough to have a continuing relationship with the Bretton Woods institutions since then, can say it has been a most exciting and rewarding experience. As for the differences between the Fund and the Bank I can only say I have never had a dull moment in either institution!

I do wish to extend my personal congratulations to you for your leadership in the Fund during a trying and difficult period. I am certain that when the world has finished its re-examination of the international monetary system it will reaffirm the wisdom of the original Articles and give full support to the Fund to do the job which it was designed to do.

Please call on me if I can be of any assistance.

Sincerely yours,

Irving S. Friedman

Mr. Pierre-Paul Schweitzer
Managing Director
International Monetary Fund
Washington, D.C.

Mr. Woods

May 6, 1966

Irving S. Friedman

India - Non-Project Aid Figure

With respect to the figure for commitments necessary for 1966/67 for non-project aid to India, Mr. Bell and I have come to the conclusion that \$900 million would be sufficient to undertake import decontrol of the thorough-going character we have discussed. (The \$900 million figure is inclusive of the \$100 million non-project loan offer by the United States in February as well as of the \$50 million IDA similar credit which you offered to the Government of India earlier this year.) It would eliminate the balance of payments need for restrictions on imports and put the Government of India in a position to issue licenses for the import of maintenance goods (production materials, spare parts and components) to the full extent of the demand for such licenses. The Indian representatives have argued for about \$960 million as a minimum. We do not feel that the difference of \$60 million is of importance for the program. The important fact is that, if the decontrol program is to continue after this year, non-project aid commitments of large magnitudes may be required next year and for several years thereafter. Whether this will prove to have been wise and whether comparable action next year will be warranted, depends on the action taken by the Government of India in the interim.

We appreciate that no precise estimate of import demand after decontrol is possible, but if our estimate proves too low, temporary assistance could be obtained from the Fund. We assume that the Indian aid program will be on-going in future years, with the possibility of providing for repurchases to the Fund in any future aid for the development program. We have also assumed that India should try to maintain its present foreign exchange reserves, but that truly short-term use of marginal amounts is possible and may be necessary.

Our most important assumption is that there is a satisfactory conclusion to the talks with the Fund. Without that, all of our estimates of import demand and need for non-project assistance would be undermined and indeed irrelevant.

As to what precise figure of non-project aid you would wish to go to the Consortium, it could best be settled after the end of the talks with the Fund.

It is to be noted that the decontrol measures now contemplated by India to be taken in the next few months are not as comprehensive as the decontrol we have urged. This is to be done within the next two years. What is being done warrants large scale non-project aid support in the magnitude suggested, but the case for the higher figure in our range would be stronger, if decontrol measures contemplated for the next 9-10 months came very close to being the kind of decontrol we had assumed in making our estimates in the first place.

cn 2

May 5, 1966

Dear Ivar,

Thank you for both your letters of April 25 and 29 and the enclosed memorandum. I was most sorry to hear that you have not been feeling better and I do hope to be able to visit with you again soon in Stockholm. Please let me have your new address when it is available.

I have studied your comments. They raise many questions. I think, however, it is fair to say that we did have a number of them in mind when making the Proposal. The Bank staff scheme was in response to the UNCTAD resolution but was based upon experience in dealing with country problems. I appreciate that one of the most important questions is who will run the organization. I hope that the IBRD would be willing to do it if asked. I also hope that there will be close collaboration with the IMF on this and have already taken steps to help bring it about.

I appreciate that there is much reason to be skeptical as to whether good performance, which is made a precondition for assistance, will be achieved in practice. I too have seen many failures but feel that there must be some kind of recognition that the problems of the poorer countries are a joint concern of the richer and poorer countries. In exchange for better performance from the poorer countries I hope that we will be able to obtain more certainty with respect to nonpolitical assistance for agreed policies. Perhaps it is needless for me to add that I agree with you that this cannot be a substitute for commercial access to the markets of industrial countries. I also agree that the terms of assistance should be long-term and generous. This is one of the critical differences as compared with the Fund's present compensatory financing facility. I was interested in your suggestion of IDA voluntary contributions and will bring it to Woods's attention.

I do hope that I have not gone soft in the head, but like yourself feel a sense of desperation about the failure of the world to fact up to the dangers inherent in the continuation of conditions in the poorer countries -- and indeed the steady deterioration in these conditions.

I am looking forward very much to seeing you soon. Edna joins me in sending our love to you and Ingrid.

Yours,

Mr. Ivar Rooth
Lidingo 3
Stockholm
Sweden

May 4, 1966

Mr. Kamarck

800

Have you seen this? I neglected it
and now Wilson is eager to have a reply.
It is an outgrowth of a suggestion of a
table which I had prepared which I am also
attaching.

Irving S. Friedman

MAY 4 - 1966

Mr. Kalmanoff:

Mr. Friedman said to express his regrets that he could not wait, (a meeting with Mr. Woods) but has asked if you could check all of the attached Fortune article with Statistics, Mr. Kamarck, and Mr. de Vries.

Go over particularly anything he has marked in the margins - he did not have time to read the last two pages.

Thanks.

SFS - Geneva mtg

Mr. Friedman

May 4, 1966

P. Pereira Lira and B. Jalan

Draft report on Geneva meeting

Enclosed is a draft of the report on the Geneva meeting.

Attachments to be circulated with the report are (1) the Resolution and (2) your speech.

You had promised to circulate a copy of the International Chamber of Commerce report on Supplementary Finance in response to Mr. Garba's request at the Board. We feel that this document deals with only a minor point in the report, and so instead of giving it general circulation, if you agree, we could send it only to Mr. Garba.

Attachment

May 3, 1966

My dear Fujioka,

I was delighted to hear from you. Your letter was waiting for me on my return from Geneva where I attended the UNCTAD meeting on our Supplementary Finance Scheme.

It was good to hear about all my old friends. Incidentally, Takeshi Watanabe and I had lunch on Friday last, and I was able to tell him personally, among other things, how fortunate he was to secure your services for the Asian Development Bank. He is very pleased that you are coming to the Bank. Douglas Gunsekera is an old friend, and I feel sure you two will get along well. Please give him my warm regards.

Again many thanks for your letter and please call on me or my colleagues for any information you may require about the World Bank.

Best wishes to you, your wife and family.

Sincerely,

Irving S. Friedman

Mr. Masao Fujioka
The Ministry of Finance
Tokyo, Japan

May 3, 1966

My dear Lord Cromer,

The whereabouts and activities of a Governor of the Bank of England being what they are, your decision to resign at this time did not, of course, come as a surprise. However, the resignation of a Governor is a thought provoking event.

I count myself lucky to have had the continuous opportunity to be involved for many years in some way or other in the monetary and external problems of the United Kingdom. I have learned a great deal from this experience and even more, have made a number of highly cherished friendships. I guess what I learned most of all was that the management of the balance of payments is a distinctly different problem from the analysis of balance of payments difficulties and a discussion of alternative ways of coping with such difficulties!

May I offer my congratulations on your superb defense of sterling. I continue to be very interested in monetary affairs and fortunately do not find this incompatible with my responsibilities in the Bank. I continue to believe, as I have since the end of the War, that we are living in a period of time when at least the threat of inflationary pressures, shortages, bottlenecks, balance of payments difficulties, etc., will be with us chronically for many years. At some point, I presume, we will learn how to reconcile our available resources and output with our demands for investment and consumption, but this problem is so new on a worldwide basis that it seems likely to take a long time before all countries learn how to manage these problems successfully. However, as long as it is so, monetary affairs are bound to be fascinating. I hope your experience and insight on these problems will continue to be available; they will surely be needed.

I do hope you enjoy some needed rest before plunging into your future affairs. It would be interesting to know how many people even in Britain have a realistic and vivid picture of what is involved in being the Governor!

I also hope that our paths will continue to cross in future years.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

The Right Honorable
The Earl of Cromer
Frenchstreet Farm
Westerham
Kent, England

P-1

May 3, 1966

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Personal

AUG 16 2023

WBG ARCHIVES

My dear Leslie,

Congratulations. I was delighted to learn that you have been appointed Governor. At least, you will not be surprised at the tremendous burden of responsibility. Please call on me, if, perchance, I can be of help.

Yours sincerely,

Irving S. Friedman

Mr. Leslie O'Brien
Deputy Governor
The Bank of England
London, England

Misc

May 3, 1966

Dear Mr. Hoving,

I do indeed recall our discussion at Tom Finney's house and thank you very much for sending me Sidney Rolfe's book Gold and World Power.

If possible I will be glad to attend the reception on May 16, and look forward to seeing you and meeting Mr. Rolfe.

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

Mr. John Hoving
1000 Connecticut Avenue, N. W.
Washington, D. C. 20036

CN

May 2, 1966

Dear Escott,

Thanks for your two letters of March 3 and 22. Your SID talk was very interesting, and I appreciate your sending a copy to me.

If you haven't already received a copy, under separate cover I'm mailing our Supplementary Finance Study which came before the UNCTAD last month. My attendance at this meeting accounts for the delay in my reply to your letters.

Your article sent under cover of your March 3 letter is extremely interesting. I do want to go over it a bit more before putting thoughts to paper.

Have you found a suitable first-class sociologist yet? I'm afraid I can't think of anyone, but something may crop up who would fit your bill.

Will be in touch with you again, and meantime, best regards,

Yours sincerely,

Irving S. Friedman

Mr. Escott Reid
Principal
Glendon College of
York University
Toronto 12, Ontario
Canada

*Pending
More Suppliers
Credits*

April 29, 1966

Mr. Nespoulous-Neuvlle	1034
Mr. Hulley	1012

Mr. Karasz' letter of April 4 to Mr. Demuth
re copy of report - Early Warning System

Please read in light of Suppliers' Credits
Study and return to me.

Thanks.

Irving S. Friedman

P-1

April 29, 1966

Dear Rodney,

Thanks for your letter of April 13, and we're all looking forward to Linda's arrival on July 26. We will meet her at the airport at 22.09. Is she arriving at Dulles or Frieddship?

As regards your query re pocket money, £100 sounds more than necessary as pocket money. However, if Linda has any plans of additional traveling or buying herself whatever young ladies wish to buy, perhaps £100 isn't too much. We are all looking forward to her coming.

Lionel is undoubtedly enjoying his Mustang - they are popular cars here too. Do please give him our congratulations on reaching his majority.

Love to you and the family,

Mr. Rodney J. Cunnell
Downswood House
63, Downs Wood
Epsom
Surrey, England

Lectures

April 29, 1966

Dear Eli,

I was waiting to reply to you until we had a typed version of the transcript of my talk, but in between times the UNCTAD meeting in Geneva came up and I just didn't have enough time to go through it. Actually I still haven't, as I only returned from Geneva on Friday. Incidentally, the meeting was very successful and there was complete endorsement of the proposed scheme as a basis for elaborating a more detailed plan. A small inter-governmental working group is being set up promptly to do the job. We will continue to be their "experts!" It is hoped to be able to get formal endorsements of our elaborated scheme next spring at the plenary meeting of the UNCTAD.

approval

In any case this is just to let you know that I have not forgotten and hope to send you something soon.

Thanks for your kind remarks about the children.

Best regards,

Yours sincerely,

Irving S. Friedman

Mr. Eli Shapiro
Graduate School of Business Administration
Harvard University
Soldiers Field
Boston, Massachusetts 02163

Mr. Michael L. Hoffman

April 28, 1966

Irving S. Friedman

Technical Assistance

I fully agree (your memo of April 21 1966) that we ought to try to use the consultative groups as a means of coordinating and improving the quality of our technical assistance activities.

The possibility of using economic reports as a vehicle to do this is surely worth exploring. It would be of great help if you would write a short paper as a basis for discussion. I am sure the Economic Committee would be very interested too. After discussing the paper between ourselves, we could then put it on the Committee agenda at a convenient date.

cc: Mr. Demuth

BIS Annual mtg

SCHWEITZERHOF HOTEL
BASLE

APRIL 28, 1966

LT

SWITZERLAND

ON QUIET SIDE OF HOTEL
WOULD APPRECIATE YOUR RESERVING SUITE OR DOUBLE ROOM/FOR
MY WIFE AND MYSELF FROM JUNE ELEVEN THROUGH THIRTEENTH.

FRIEDMAN
INTBAFRAD

Irving S. Friedman
Office of the President

C. H.

April 29, 1966

Dear Erwin,

Thank you for your letter of April 15, which arrived during my stay in Geneva for the UNCTAD meeting on our Supplementary Finance Proposal.

I would, of course, be very happy to continue our conversation over lunch, and look forward to hearing from you.

Sincerely,

Irving S. Friedman

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

Mr. Stanley P. Johnson

April 27, 1966

Irving S. Friedman

Industrial Exports of the OECD Countries

I would like to have a table showing the industrial exports of the OECD countries for the last 3 years available.

Thank you.

Pending
(then A-2)

Messrs. Van Wagenen and Eschenberg

April 27, 1966

Irving S. Friedman

Junior Professionals - Economists

I would appreciate having a list of economists who have been recruited to the Bank through the Junior Professional Program, and what they are doing now.

I would classify, for this purpose, someone who did his graduate work and had experience in economics before joining the JPP.

April 26, 1966

Mr. Glenn G. Wolfe
Vice President for Administration
Institute of International Education
809 United Nations Plaza
New York, N.Y. 10017

Dear Mr. Wolfe,

As you know, the Institute of International Education is administering a grant of \$25,600 made last month by the Ford Foundation to the Society for International Development. I understand that payment of this sum to IIE has now been made by the Foundation.

As Treasurer of the Society, I am charged with the prudent investment of the Society's funds. Since the grant is for four years and a large balance will not be needed for some time, it would seem to me that a substantial portion should be invested in such a way as to yield a return. If it is convenient for you, we should appreciate receiving quarterly payments of accrued interest on the sum invested.

If there is any way in which I can be of help to you in investing these funds, please do not hesitate to call on me.

Sincerely,

Irving S. Friedman

cc: Richard Catalano
The Ford Foundation
477 Madison Avenue
New York, N.Y. 10022

Mr. Woods

April 22, 1966

Irving S. Friedman

Reply to Mr. Raul Prebisch - Cocoa Agreement

Attached hereto is a suggested reply to Mr. Prebisch. As you see, it reiterates our position on financing commodity stocks but otherwise tries to be friendly in tone.

You may be interested to know that at the UNCTAD session which I just attended there was considerable corridor discussion on cocoa. The Ghanaians are, of course, very keen to have an agreement and were concerned that supplementary finance would be used in the future by the consuming countries as a reason for not having a cocoa agreement. We did not express any views on this except to hew to the line that supplementary finance was compatible with operations of international commodity agreements, where such agreements were desirable and feasible.

Attachment

April 22, 1966

Dear Mr. Prebisch,

This is in reply to your letter of April 16, 1966, regarding the proposed international governmental arrangements for cocoa.

I note in your letter that there is now agreement on the basic mechanism to be used in the proposed cocoa agreement and that you hope that with this change it would be possible for some arrangement to be worked out for the international financial institutions to assist in this endeavor. I know that you are aware of our policies on the financing of buffer stocks, but, on the other hand, I am happy to discuss the problem of the proposed agreement with you to see whether perhaps we can be of assistance in some way.

Unfortunately I will not be in Washington on Friday, May 6, but I would be happy to see you and Mr. Judd on Thursday, May 5, or on the following Monday, May 9, if that is convenient for you.

In the meantime, I am asking my staff to look at the report of the Working Party which you attached with your letter and they may have some comments to make to you or Mr. Judd, after giving it further study.

Yours sincerely,

George D. Woods

Mr. Raul Prebisch
UNCTAD
Office of Secretary-General
Geneva, Switzerland

cc: Mr. Demuth
Mr. Kamarck

Mr. Woods

April 22, 1966

Irving S. Friedman

Statement to the Board on the UNCTAD Meeting on Supplementary Finance.

I believe that it would be useful for me to make a brief statement to the Board on the UNCTAD meeting on Supplementary Finance next Tuesday or Thursday if you agree.

In any case we are preparing a more detailed report for circulation to the staff, which could also conceivably be circulated to the Executive Directors.

APR 25 1965

Mr. Hulley and
Mr. Nespoulos Neuville

1012

1034

If you have not seen this I think you ought to read the article by Surrey as a check against our own impressions of the U.S. export credits, etc.

Bankers Magazine - Winter 1966 Vol 149 No.1

DECLASSIFIED

April 22, 1966

Mr. Woods

AUG 16 2023

Irving S. Friedman

WBG ARCHIVES

SECRET

Meeting at BIS

The following are some brief notes on conversations which I had during my attendance at the BIS monthly meeting in Basle. I was there Saturday afternoon and a good part of Sunday but returned Sunday night to Geneva for the meetings there.

1. de Lesseps: He asked me to pass on to you that he was hoping to make repurchase sales to the Italians in the magnitudes of \$25 to \$30 million, to the Austrians about \$5 million and the French about \$1 million. He said he would be reporting on this more precisely to Cavanaugh and perhaps you have heard from him in the meantime.
2. Germany: I had a talk with Governor Blessing at which Emminger and Tugeler, who is in charge of foreign exchange operations for the Bundesbank, were present. (Governor Blessing, incidentally, looked kind of tired to me, and asked a number of times to be remembered to you.) Germany is still experiencing inflation, evidenced both in the rise of wages and prices. Public investment is still too high; new public investment expenditures are declining, but disbursement on the old ones continues -- it is expected to take about six months or so before public expenditures come down to a tolerable level. Long-term interest rates now are at 8%, including for the Government. The Bundesbank is making the Government borrow from the public, except for short-term accommodation. We all agreed that unless something could be done about inflation it could lead both to a reduction in the growth rate and the eventual inconvertibility of the German mark. Great interest was expressed in India. Governor Blessing said that he was very happy that you were prepared to take on increased responsibilities for obtaining economic performance in India. He recognized that there was need for more development finance both in the form of a larger IDA and also contributions to the proposed supplementary finance.
3. Italy: According to the Director of Economics at the BIS (an Italian named Ragnoni -- Governor Carli was not present) Italy is still experiencing stagnation. The principal evidence is the very low level of private investment which is being discouraged by a profit squeeze and certain institutional factors such as the delay in passing legislation dealing with property rights and local government powers. There is the fear that if more authority is given to the local government this would give greater confidence to the Communists who are strong in certain local areas. The President, Mr. Saragat, seemed not even able to influence the moderate wing of the Social Democratic Party which he heads. Exports are doing fine and the balance of payments is strong. At the same time there is danger of a re-emergence of inflation. Increased public investment is being used to overcome stagnation but because of administrative and bureaucratic delays these public expenditures may not materialize until the very time when private investment begins to rise. Thus there is the likelihood of having simultaneously high levels of exports, private consumption, public investment and private investment.

WBG ARCHIVES

4. Japan: I had a long conversation with Mr. Mayakawa who is an old friend and one of the Directors of the Bank of Japan. The Japanese regard themselves as still experiencing stagnation because the gross national product and industrial production rose "only" about 2 to 3 per cent last year. Exports are up 26%! Wages have not risen much but there is strong pressure for further increases. A widespread public view is that too much reliance has been placed on monetary squeeze to prevent inflation and manage the balance of payments, with resulting very high interest rates and low private investment (very similar to the Italian situation). Stagnation is expected to continue for the next year or two. More public opinion is now in favor of increasing domestic demand even at the expense of exports. The basic reason for the present situation is found in failure in 1964 of monetary restraint to discourage private investment leading to the present position of over-capacity in industry and eagerness to export. The balance of payments position is good as imports remain low. Japan is now a net exporter of capital. I expressed the view that, from my experience with Japan, a 3% growth rate without unemployment was an acceptable price to pay for an adjustment for overcoming the problem of excess capacity. It would be unwise to expect a uniform rate of growth of 6 to 7 per cent even though an average rate of this amount might well be possible.

5. United Kingdom: I had a long and interesting chat with Maurice Parsons. The Bank of England people are keeping their fingers crossed until the new budget appears. They are fearful of a budget which looks good but does not really represent restraint. The views expressed by others (not Parsons) at the meeting were summarized in the words that "sterling hangs by a thread."

Parsons was very praising of the Bank's emphasis on performance. He expressed particular interest in the work on India and supplementary finance. He said that he continued to feel strongly that the Bank must play an even larger role in the field of economic evaluation and economic policy performance. He agreed that there was a need for an increase in development finance. He found comfort in my view that the amount that could be used more effectively was not unlimited, and that we were still thinking in terms of \$3 to \$4 billion a year more which in terms of resources was quite small for the developed countries.

6. France: I had some discussion with M. Bouchet, who is in charge of the foreign work of the Bank of France, and others. The French situation seems to be one of emerging from relative stagnation. However, the inflationary pressures are being suppressed through price controls, wage ceilings, rent controls, etc. Interest rates do not really reflect the economic situation. The business man finds that government investments, including those of nationalized enterprises, are absorbing available savings. The budgetary effects of the public sector activities are disguised by taking some public investments out of the budget. (Put into so-called Caisse de Depots). Rigidities of all kinds continue to give monopolistic positions to inefficient firms. French companies are in financial difficulties and interests in them are being sold at low prices. As a consequence, contrary to the government's wishes, the effects of the government policies has been to accelerate direct investment in French firms by foreigners, including U.S. companies. Because of the repressed inflation there is always the danger of an open inflation, particularly if government expenditures increase and wages are allowed to rise.

7. Milton Gilbert: His main concern is that too much reliance is being placed on monetary policy instead of fiscal policy.

(original letter from Truhler
to Geneva)

April 8, 1966

Dear Bob,

Thank you for your letter of March 24. As an old friend and esteemed colleague, your warm reaction was particularly appreciated. As you know, I share with you a fascination for unsolved "frontier" problems in our field and it is most satisfying to have praise from a true pro and veteran. I was also most glad to have your interesting and valuable comments and material.

You raise the question of what is meant by "firm commitments" to the less developed countries. How could these be called "firm" when actual action will still be dependent on later agreements of policy? Here I think it may be useful to distinguish between the initial "policy agreement" and the later discussions and understandings during the "projection period". The "policy agreement" is to be made in advance -- at the inception of the Scheme and adapted during the subsequent "projection periods" and not after the shortfall occurs. Different parts of the policy package would be revised by mutual understandings in response to changing conditions, but always in accord with the criterion of what serves the development process. As long as the country lived by these policy understandings, the commitment to the country in the event of a shortfall would be firm. It is true that the "firmness" of this commitment depends on the way the policies were being implemented, but since these have been agreed to in advance of any shortfall, it should not be difficult to determine whether these were in fact being followed. If a shortfall occurred in spite of a country's adherence to agreed policies, there would be a reasonable basis to believe that the shortfall was beyond the country's control and the Agency could then dispense assistance speedily.

The fact that the possible extent of the contribution of the developed countries is uncertain derives from the nature of the question which is being tackled: avoidance of disruptive effects of unexpected export shortfalls. It is quite understandable that these countries would not be willing to write a blank check which would take care of the problem, whatever its magnitude. This was why an effort was made to approximate a sum with which it would be responsible international management to start operating the Scheme. Experience only would determine whether the funds initially allocated were adequate; provision is made for replenishment, if needed.

You raise the question of whether political leaders are ready for the Scheme. I hope so. My judgment is that the world is moving in a direction in which the international and mutual responsibility for development is becoming increasingly well defined and accepted. We are already beginning to apply these ideas more generally in the Bank/IDA work. I am keeping my fingers crossed as I think that our approach, if generally accepted, could make a major contribution to the well-being of the world.

With kindest regards to you and Lois, and thanks again for your encouragement.

Yours,

Irving S. Friedman

Professor Robert Triffin
Department of Economics
Yale University
37 Hillhouse Avenue
New Haven, Connecticut

April 8, 1966

Mr. Knapp

This letter is fine with me.

However, knowing Ferras as well as I do, I think he would be very appreciative if the message came from Mr. Woods as long as Mr. Woods were here to sign it. If you wish to send it, I would suggest you wait until Mr. Woods is out of town.

Irving S. Friedman

Knapp letter to Ferras of April 7
in reply to his of March 31

Mr. George D. Woods

April 7, 1966

Irving S. Friedman

Economic Committee Documents

1. With the introduction of the country Economic Policy Memoranda, which are prepared by the Area Departments, I thought it would be useful to clarify the nature of the various documents which are distributed by the Economic Committee Secretariat. The documents distributed with the Agenda for Economic Committee meetings (EC/A/66---/1 etc.), and also documents distributed under the "O" series (EC/O/66---), are working documents distributed for the consideration of Economic Committee members. The "Conclusions and Recommendations" or "M" series (EC/M/66---) represent the actual deliberations and decisions of the Economic Committee.

2. I think that the documents in the "M" series will be of most interest to the members of the Council.

cc: President's Council:

Mr. Knapp
Mr. Wilson
Mr. Aldeverold
Mr. Broches
Mr. Demuth

ECM-1

Mr. Andrew M. Kamarck

April 7, 1966

Irving S. Friedman

Economic Performance

I have been disturbed that in a few Economic Policy Memoranda, for example, Zambia and Honduras, there has been no discussion of economic performance.

I simply do not care whether the Area Department does or does not feel that the performance of the country is adequate. I do want some discussion of the principal aspects even if it is comments by the Area Department why they think it is satisfactory. Otherwise, we will never be in a position of getting a critical review of economic policy. Therefore, I insist that there be in each Economic Policy Memorandum among the issues and in the discussions something dealing with the principal aspects of performance.

cc: Mr. Owen

MISC.

April 6, 1966

Dear Mr. Hyde,

This is in response to your letter of March 30. I am enclosing a list of source material on the European Investment Bank and the European Development Fund.

I hope you will find something useful there, though with the exception of Item I any statement of the criteria for making loans and investment is likely to be rather general.

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

Enclosure

Mr. Peter W. Hyde
Harvard Business School
Boston, Massachusetts 02163

ECM-9

April 5, 1966

Mr. Kamarek	800
Mr. King	802
Mr. Maiss	876

Attached is Mr. Sundrum's paper on performance which has been revised.

Irving S. Friedman

PREBISCH
UNCTAD
GENEVA

APRIL 5, 1966

LT

SWITZERLAND

REFERENCE CONSOLO'S LETTER MARCH 15 STOP I WILL ALSO
BE ACCOMPANIED BY PAULO PEREIRA LIRA REGARDS

FRIEDMAN
INTBAFRAD

Irving S. Friedman
Office of the President

April 5, 1966

Mr. Grenfell,

I do want to tell you how much
I appreciate what you are doing with
Tainsh's article.

Irving S. Friedman

Mr. Julian Grenfell
Information Department
I.B.R.D.

MISC.

April 5, 1966

Dear Mr. Reimann,

Thanks very much for your invitation to talk to your cocktail party group, now scheduled for June 7. I appreciate the invitation.

I will try to attend if I can although my schedule is most uncertain at that time. However, due to the uncertain travel schedule I don't think I can commit myself at this time to address your group, and feel sure that you will find many a satisfactory substitute.

Please let me know if you have difficulty in locating a speaker. In any case if I were to speak I would prefer not to discuss Prospects for World Monetary Reform but rather talk on some subject more within my present field of responsibilities.

Yours sincerely,

Irving S. Friedman

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

April 4, 1966

Mr. Saad:

You will recall that the other day I mentioned I was going to Geneva for about 10 days. Edna and I leave next Saturday evening by Swissair and plan to be at the Hotel des Bergues from the 10th through the 20th.

We would of course be very pleased to see Hoda if you think she would be free during that time.

Mrs. Hoda Saad
Alta Mira
Chemin de Bonnevaux 8
Vesenaz
Geneva, Switzerland

EDGAR JONES
INTERFUND
GENEVA

APRIL 4, 1966

LT

SWITZERLAND

ARRIVING SUNDAY APRIL 10 WITH EDNA STAYING HOTEL DES BERGUES STOP
HOPE TO SEE YOU AND BETH STOP REGARDS

FRIEDMAN
INTBAFRAD

Irving S. Friedman
Office of the President

WYNDHAM WHITE
GATT
GENEVA

APRIL 4, 1966

LT

SWITZERLAND

ARRIVING SUNDAY APRIL 10 STAYING HOTEL DES BERGUES AND
ACCOMPANIED BY MY WIFE STOP HOPE TO SEE YOU STOP REGARDS

FRIEDMAN
INTBAFRAD

Irving S. Friedman
Office of the President

PREBISCH
UNCTAD
GENEVA

APRIL 4, 1966

LT

SWITZERLAND

ARRIVING SUNDAY APRIL 10 SWISSAIR FLT 141 STAYING HOTEL
DES BERGUES STOP HOPE TO SEE YOU BEFORE MEETING CONVENES STOP
MRS. FRIEDMAN IS ACCOMPANYING ME STOP REGARDS

FRIEDMAN
INTBAFRAD

Irving S. Friedman
Office of the President

Blue Copy

ECM - 1

Mr. C. F. Owen

April 4, 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 be invited to come except when we have closed meetings limited only to members of the Committee.

However, we should also indicate to the Fund that it can rely on the Bank Area Departments (when a country is being discussed) and on Economics Department (when general economic questions are being discussed) for guidance as to the specific meetings at which the presence of the Fund would be particularly useful.

BJ/cmm

Reading

April 5, 1966

Mr. Kamarck	800
Mr. de Vries	800

Status of Loans

Do you have any comments on this?

Mr. Wilson's O.M. of April 1
attaching suggested form for
monthly statement.

Irving S. Friedman