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THE WORLD BANK

Washington, D.C.

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Series 5540

Irving S. Friedman Chron Files

1965 ①



The World Bank Group
Archives
1598694
R2000-036 Other # 1 Box # 210170B
Irving S. Friedman - Chronological File - 1965 Correspondence - Volume 1

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Mr. Woods

March 31, 1965

Irving S. Friedman

Ghana

Thank you for letting me see the attached memorandum on Ghana.

I would hope that as time went on the British Prime Minister would be telling a country like Ghana to get in touch with the Bank as well as the Fund. I think Ghana is an excellent example of the inadequacy of an approach by any one institution. They have an inflationary problem and they have a balance of payments problem as evidenced by the decline in reserves and extensive use of restrictions. However, their basic problem is a stagnation in export earnings resulting from a sharp decline in cocoa prices, which has offset the increase in cocoa production. As I understand it what is needed is a restructuring of their development program with probably less emphasis on cocoa and more on diversification. A stabilization program will tend to emphasize a decrease in the magnitudes of public expenditures in order to eliminate the inflationary budgetary deficit. However, unless it is done with a sophisticated knowledge of a development program, it could result in an unnecessary and serious setback to development and growth in Ghana, which could have been avoided if both institutions were looking at the problem simultaneously--whether separately or jointly.

Incidentally, you may be interested in glancing at the attached study on Ghana which we did in connection with our UNCTAD Supplementary Financing proposal.

Attachment

*(to be read at
President's Council)*

Mr. George D. Woods

March 31, 1965

Irving S. Friedman

Operational Memoranda

Until now I have refrained from commenting on the Operational Memoranda for fear that it would hold up progress in their completion or issuance. I have been guided by your repeated statements that these memoranda are to be kept under review and are subject to revision if experience indicates the need for such revision. If, however, time does permit I would be happy to have the Economics Department and/or myself consider any outstanding ones of economic interest which are still not finished.

In any case I would like to suggest that in addition to a designating department that has general responsibility for the Operational Memoranda, that there be an assignment among the departments concerned as to which Operational Memoranda they would regard themselves as having primary responsibility for keeping under review and updating, or such assignments could be made to individual members of the President's Council.

There are a number of memoranda which I believe should be the primary responsibility of the Economics Department. There are others, however, which I believe would best be regarded as the joint responsibility of the Economics Department with some other department. There are, of course, still others which do not involve the Economics Department at all, but my suggestions are limited to those which have a very large economic content. If you agree, I would be glad to indicate to you or to anyone you may designate what assignments I believe are appropriate in the economic field.

cc: President's Council

ISF:prl

Directors of Area Departments
Director, Economics Department
Mr. B. Bell

March 31, 1965

Irving S. Friedman

Meeting on IDA Replenishment

I am calling a meeting for Thursday, April 1, at 11 a.m. for a discussion on IDA replenishment. It would be appreciated if you and/or your Department's Economic Adviser could attend.

NOT SENT

Mr. Woods

March 31, 1965

Irving S. Friedman

IDA Replenishment

As you know we are preparing for you a memorandum on the IDA replenishment covering various aspects including a need for IDA type funds, the ability of the donor countries to provide such funds and ways and means of how funds might be raised. However, in view of your forthcoming discussion with Senator Fullbright I am jotting down a few notes which may be of some interest to you.

1. IDA magnitude

In our judgment a doubling of IDA from its present levels would merely enable IDA to maintain its present criteria with respect to eligibility and purpose and to help essentially the same countries, plus a few more in Africa. It is necessary to have in terms of a tripling of IDA or even quadrupling if IDA is to be used in an important way by other countries, such as those in Southeast Asia, Middle East and Latin America, and if it is to finance other proposals such as the UK/Swedish Proposal, there is at least a question as to whether it would be wiser to go for a bigger IDA figure on the grounds that it will now serve additional important purposes, or whether to go for an increase with the intention of approaching governments another time for these other purposes, particularly the UK/Swedish Proposal. Incidentally, these estimates assume the continuation of the bilateral and IBRD programs.

On the basis of our external aid requirements studies, it is clear that the LDCs could use a few billion dollars per year more if they are to achieve what are now regarded as reasonable and feasible growth targets. In view of the indebtedness situation if these needs were to be met they would presumably ought to be met on fairly liberal terms. Of course this could be done bilaterally as well as multilaterally.

As to the ability of a country to provide increased aid it may be noted that the present level of gross national product for the OECD countries put together is over one trillion dollars and is rising by more than \$50 billion per year.

March 30, 1965

Dear Mr. Cheadle:

I would like to extend my regrets for not being able to attend the Symposium on Federal Taxation on Friday, March 26. As I intimated to Mr. Anderson in my letter of March 8, I was also accompanying Mr. Woods when he addressed the ECOSOC on the same day.

With the inevitable conflict of meetings I was unable to return to Washington until late Friday evening.

I would be interested in reading the material on the outcome of the Symposium.

How about having lunch with me when you are next in Washington?

With kind regards,

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. Harold L. Cheadle
Deputy Manager
The American Bankers Association
90 Park Avenue
New York, N.Y. 10016

Rutledge

Mr. Woods

March 30, 1965

Irving S. Friedman

Ghana

Thank you for letting me see the attached memorandum on Ghana.

I would hope that as time went on the British Prime Minister would be telling a country like Ghana to get in touch with the Bank as well as the Fund. I think Ghana is an excellent example of the inadequacy of an approach by any one institution. They have an inflationary problem and they have a balance of payments problem as evidenced by the decline in reserves and extensive use of restrictions. However, their basic problem is a stagnation in export earnings resulting from a sharp decline in cocoa prices, which has offset the increase in cocoa production. As I understand it what is needed is a restructuring of their development program with probably less emphasis on cocoa and more on diversification. A stabilization program will tend to exercise a decrease in the magnitudes of public expenditures in order to eliminate the inflationary budgetary deficit. However, unless it is done with a sophisticated knowledge of a development program, it could result in an unnecessary and serious setback to development and growth in Ghana, which could have been avoided if both institutions were looking at the problem simultaneously--whether separately or jointly.

Incidentally, you may be interested in glancing at the attached study on Ghana which we did in connection with our UNCTAD Supplementary Financing proposal.

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Attachment

KARASZ

March 30, 1965

INTBAPRAD

PARIS

LT

FRANCE

YOUR 176 SUGGESTION AGREED

FRIEDMAN

Irving S. Friedman

Office of the President

Mr. Andrew Kamarck

March 30, 1965

Bimal Jalan

Committees of the OECD

1. Attached is a list of committees of the OECD based on a booklet published by the OECD in September 1964.

2. The published documents of the OECD, however, do not have a list of the working parties of DAC. For this I tried to look into the mimeographed documents circulated by the DAC Secretariat. In some of these (of those available in the Research Files), there was a mention of various DAC working groups, but I could not find the details of their constitution or their functions.

3. Most DAC working groups, except the one on technical co-operation, seem to be ad hoc; and so I am not sure whether all of the ones I have mentioned are still functioning, and also, whether they exhaust the list. I tried to check this with the OECD office in Washington, but they weren't sure either.

Attachment

Committees of the OECD

The OECD has a number of governmental committees, each dealing with one specialized subject within a broad area of economic activity. The following is an exhaustive list:

1. Committees on Economic Affairs
 - (i) Economic Policy Committee
 - (ii) Economic and Development Review Committee
2. Committees on Development Assistance
 - (i) Development Assistance Committee (DAC)
 - (ii) Technical Cooperation Committee
3. Trade, Payments and Related Activities
 - (i) Trade Committee
 - (ii) Committee on Invisible Transactions
 - (iii) The Board of Management of the European Monetary Agreement (EMA)
 - (iv) Payments Committee
 - (v) Insurance Committee
 - (vi) Maritime Transport Committee
 - (vii) Fiscal Committee
 - (viii) Committee of Experts on Restrictive Business Practices
 - (ix) Tourism Committee
4. Agriculture and Fisheries
 - (i) Committee for Agriculture
 - (ii) Fisheries Committee
5. Scientific Affairs
 - (i) Committee for Scientific and Technical Personnel
 - (ii) Committee for Scientific Research
6. Industry and Energy
 - (i) Industry Committee
 - (ii) Energy Committee
 - (iii) Special Committees (e.g., Iron and Steel, Cement, Coal, Electricity, Oil, Textiles)
7. Manpower and Social Affairs
 - (i) Manpower and Social Affairs Committee
8. European Nuclear Energy Agency (ENEA)
 - (i) Steering Committee
 - (ii) Scientific Cooperation
 - (iii) Joint Undertakings

Of the above, the operating procedures and functions of the Committees on Economic Affairs and Development Assistance would seem to be of special interest to the Bank. A brief summary follows:

(i) Economic Policy Committee: This Committee has the responsibility for the formulation of general economic policies and review of the economic developments in all member countries. There are three specialized Working Parties within the Committee - (a) on policy for the promotion of economic growth - it has under continuous review the growth achievements and prospects of member countries with special emphasis on inter-connections and inter-actions of growth prospects and plans among different countries; (b) on policies for the promotion of better international payments equilibrium--its main task is the thorough discussion of balance of payments problems of the group's members, and of domestic and international measures to deal with them. This includes discussion of such special fields as the nature and determinants of international capital movements, the functioning of European capital markets, etc.; (c) on costs of production and prices--is primarily concerned with the problem of price stability.

(ii) Economic and Development Review Committee: This Committee is responsible for the annual economic survey of industrial member countries and of Yugoslavia. Each country's situation and policies are examined by a panel of representatives of other member governments and the results of each examination are published in a regular series. The Committee is also responsible for advising the Council on the special growth problems of member countries in the course of development, i.e., less industrialized OECD countries.

(iii) Development Assistant Committee: The DAC (known as the Development Assistance Group (DAG) until the replacement of OEEC by OECD), has as its objectives the expansion of the aggregate volume of resources made available to the less-developed countries, increasing the effectiveness of aid, and coordinating national assistance programs. Members of the DAC are Belgium, Canada, Denmark, France, the Federal Republic of Germany, Italy, Japan, the Netherlands, Norway, Portugal, the United Kingdom, United States, and the EEC.

DAC has a number of working groups and ad hoc groups of experts to consider certain specific questions: (a) Working Group on Technical Cooperation. The purpose of this Group is to increase coordination and exchange of information in the bilateral technical assistance of OECD members to developing countries. To this end it collects accurate and comparable data on the size, content and geographical incidence of the total international technical aid effort so as to enable member countries to place policy issues in proper perspective; (b) Working Party on Assistance Requirements - this includes consideration of, among other things, "ways of evaluating the volume of assistance which can reasonably be expected to be provided by the donor countries." An Expert Group on the "uses of Analytical Techniques" in estimating aid requirements was established this year; (c) Working Party on Terms of Aid; (d) Working Party on UNCTAD Issues; (e) Working Party on Cooperation with Inter-American Development Bank.

(iv) Technical Cooperation Committee: This Committee is responsible for drawing up and supervising the programs of technical assistance arranged for the benefit of member countries, or in special cases, areas of member countries, in the process of development. The technical assistance programs consist mainly of the provision of experts and of training facilities.

Mr. A. Kamarck

March 29, 1965

Irving S. Friedman

I have just received the report on Israel, entitled "Current Economic Position and Prospects of Israel".

Did the Economics Department play any role in this?

I also note that it is sent to the Board as prepared by the South Asia Department. Have you given any thought to what the author designation should be in the future after the Economics Department have begun to play an active role in the preparation? I do wish to have a principle accepted that if members of a Department are part of a mission and participate in the preparation of a report, then that Department should be regarded as one of the co-authors. I would expect that the usual report of a current economic position and prospects of a country would have the area department and the Economics Department as joint authors.

March 30, 1965

The Registrar
Harvard University
Cambridge
Mass.

Dear Sir:

In January of this year I wrote to a Mr. Belai Abbai, an Ethiopian student, care the Center for International Affairs, Harvard, as I understood that Mr. Abbai was still attending the University.

Mr. Abbai has not replied and I would be grateful if you have any other address where he could be contacted.

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

Mr. A. Kamarck

March 30, 1965

Irving S. Friedman

I have just received the report on Israel, entitled "Current Economic Position and Prospects of Israel".

Did the Economics Department play any role in this?

I also note that it is sent to the Board as prepared by the South Asia Department. Have you given any thought to what the author designation should be in the future after the Economics Department have begun to play an active role in the preparation?

I would expect that in the future report on the current economic position and prospects of a country would usually have the area department and the Economics Department as joint authors.

ISF:pr1

Mr. George D. Woods

March 30, 1965

Irving S. Friedman

U. S. Balance of Payments

In connection with the current discussions on the U.S. balance of payments much attention is given to the question of the possibility of foreign central banks converting their dollar holdings into gold.

In this connection it may be interesting to look at some of the current positions of the central banks to get at least a rough estimate of what this demand for conversion of dollars into gold might be.

<u>Country</u>	<u>Gold</u> (In millions of dollars)	<u>Foreign Exchange</u>
Austria	600	645
Belgium Luxembourg	1451	540
Canada	1026	1658
Denmark	92	521
France	3729	1376
Germany	4248	2720
Greece	98	171

Thus industrial Europe has a total of monetary reserves of about 26 billion, of which somewhat more than 9 billion is in the form of U.S. dollars. My own judgment is that of the countries of industrial Europe those which may be regarded as eager to hold significantly more amounts of gold would be Austria, France and Germany. The others either have relatively small dollar balances or as in the case of the Scandinavian countries an anti-gold bias. If this is so we are then speaking of about 4 - 5 billion of dollars. It is virtually impossible to say how much dollars countries would wish to have as working balances.

The United Kingdom may be regarded as a major country with the strongest pro-gold bias and tradition of Europe. If you apply the same 90% rule to France, Germany and Austria, you would get a total demand for conversion of about "three billion?" If in addition, one were to assume the billion dollars of gold demand for all holders outside of industrial Europe this would be a conservative approach.

I therefore feel that it is safe to assume that for any policy making purposes the total demand for conversion of dollars into gold at the present time may be regarded as not more than four billion dollars. As a matter of fact I believe that with the pursuit of dollars, and to give confidence in the future to the U.S. dollar, the actual demand for conversion of dollars into gold - which might result from the return to the actual full convertibility of the dollar into gold - would be at the most two billion dollars.

March 29, 1965

Dear Sidney:

Thanks for your letter of March 25. I appreciate your clarifying the two points and I agree with them.

With warm regards,

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. S. Dell
Research Division
Centre for Industrial Development
United Nations
New York
New York

ISF:prl

March 29, 1965

Dear Mr. Gamoneda,

I have just received your letter of March 24, and hope that we will be able to be of some help to you. I am circulating your letter to various of my colleagues, and we will be in further communication with you.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. A. G. Gamoneda
Georgia Institute of Technology
School of Industrial Management
Atlanta
Georgia

ISF:pr1

Messrs. Avramovic, Kamarek, de Vries

March 29, 1965

Irving S. Friedman

Milic Kybal

Mr. Kybal has evidenced an interest in joining the staff as an economist. He has mentioned knowing Messrs. Avramovic and de Vries. I have discussed with him whether he had the kind of interest and background that were suitable for work as an economist in the Bank. However, I indicated no reaction, but said that I thought it would be desirable if he were to speak to the three of you since you would be able to tell him more in detail the kind of work we were planning to do and the necessary qualifications.

I would therefore appreciate it if you would arrange to have Mr. Kybal come in for a talk.

ISF:prl

March 29, 1965

Dear Sarma:

It is probably unnecessary for me to acknowledge receipt of your letter of March 23. However, I thought it might be better if you were certain that I had received it.

I am glad that you are coming soon - the sooner the better. There are many interesting problems waiting for you which I am sure you will enjoy, as well as making an important contribution to their solution.

With warm regards.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. N.A. Sarma
Reserve Bank of India
Economic Department
Post Box No. 1036
Bombay 1
India

ISF:prl

March 29, 1965

Dear Mr. Olcay:

Thank you for your letter of March 23 and the material enclosed with it.

I look forward to making the acquaintance of Mr. Whitbeck and we would be happy to have the both of you spend a few days with our staff.

I have just received the material and have not had a chance to read it, but I am sure that I and others will find it most interesting.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. O. John Olcay
Assistant Secretary
The Bank of New York
48 Wall Street
New York 15
New York

ISF:pr1

March 29, 1965

Dear Jack:

Please excuse the slight delay in answering your letter of March 23. I was out of Washington when it arrived.

I am very pleased that you will have an evening for us and we will reserve Friday, April 23. Needless to say Edna and I are looking forward very much to seeing you and Kathleen.

Sincerely,

Mr. Jack Portsmore
Bank of England
London E.C. 2
ENGLAND

ISF:prl

Mr. Michael L. Lejeune

March 29, 1965

Irving S. Friedman

Mr. Alfonso Gomez Ruan

May I send the attached to you? It results from a conversation I had with Mr. Palacio asking for the names of Latin American economists who might be suitable to work in the Bank. At the time he took the simple attitude that the Bank did not wish to employ Latin Americans!

ISF:prl

Mr. George C. Wishart

March 25, 1965

Irving S. Friedman

Tentative Travel Arrangements

This is to inform you that I am planning to be away on holiday during the Month of August.

I am giving some thought to foreign travel. It may be necessary for me to spend some time in Europe in April to discuss our thoughts on the U.K. Swedish Proposal and other matters.

I am also considering whether it would be desirable to visit some countries in Latin America in July to acquaint them with what we are doing. I will let you know when I have firmed up my thoughts about these matters.

ISF:prl

March 25, 1965

Dear Sidney:

This is in further reply to your letter of February 26.

We have been considering your suggestion regarding the scope of the Bank study on Supplementary Finance. Our judgment is at this time that we will be covering the various points in Items 2 to 5 of Section B. I do not know, of course, what answers we will be proposing or whether they will be the answers which the original drafters of Section B had in mind.

Please let me know if this answers you adequately, if not, perhaps we can discuss it further.

With warm regards,

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. S. Dell
Director, Research Division
Centre for Industrial Development
United Nations
New York
New York

ISF:prl

March 25, 1965

Dear Mr. Pearson:

Thanks again. As far as I am concerned the version you enclosed as quite alright. However, if it is not too late I would make the following additions:-

Page 2 in the para. beginning "In Mr. Friedman's view...." I would put at the end of the paragraph the following sentence. "Governments, like any other group, make mistakes."

In the last para. on page 2 in the third line I would insert the word 'raising' between "discussing" and "development"; and in the next to last line after the words, "capital importers" I would add "or donors and recipients of aid."

As I said before if it is too late for these additions don't worry about them. Thank again for all your help.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. Scott Pearson
1430 Rhode Island Avenue N.W.
Washington, D.C. 20005

ISF:pr1

March 25, 1965

Dear Don:

Thanks very much for your letter of March 22 and for permitting me to bother you with telephone calls. However, until you tell me that you have had it and that you can't be bothered any more, I will take the liberty of telephoning you from time to time. I hope that you will take the initiative if you hear of things of interest.

There are many here who are already talking about a reversal in the U.S. balance of payments position. I am sure that American business whether in industry or finance will wish to cooperate with the President. However, my own personal thoughts are that the difficulties of doing this will emerge as time goes on. I believe I am right in assuming that the President is eager both to solve the balance of payments problem but in a way that does not injure substantially the interests of American business or the American economy. Therefore if subsequent difficulties do arise what next?

I know that I have a strong bias against controls, but this is a bias based upon many years of experience. I guess it is fair to say that probably there is no-one else in the world who has seen as much in this field as I have had the opportunity to see. I would love to think that our country would be the exception and that the difficulties experienced by others will not be experienced by us. However, until we have more experience I am keeping my fingers crossed and still feel that it is most important to appraise the situation realistically and imaginatively. If we see problems arise I hope they will be dealt with before they become very sticky and very onerous.

Ken is looking forward to coming out again. In your letter you refer to seeing us this summer. Does this mean that you plan to come East this summer? We are planning an August vacation. What are your plans if you have any yet? How about a camping trip with you doing the work and the cooking, and I, as in the past, expressing my deep pleasure and appreciation!

With love to all,

Yours,

Mr. Don L. Waage
Investors Diversified Services, Inc.
8th and Marquette
Minneapolis,
Minn. 55402

KARASZ
INTRAFRAD
PARIS

March 25, 1965

LT

FRANCE

REFERENCE YOUR LETTER MARCH 16 ENCLOSING MEMO ON MEETING OF
EVERTS GROUP. WOULD APPRECIATE YOUR DISCUSSING WITH NESPOULOUS NEUVILLE
THE INTER RELATIONSHIP BETWEEN WORK BEING DONE BY EVERTS GROUP AND OECD
TRADE GROUP WITH OUR OWN WORK. WOULD ALSO LIKE TO KNOW MORE ABOUT
BACKGROUND OF DIFFERENT POSITIONS AND WHAT ROLE YOU FEEL BANK STAFF
SHOULD PLAY IN RELATION TO WORK OF EVERTS ~~group~~ GROUP AND OECD TRADE
GROUP. IF YOU BELIEVE NECESSARY AND DESIRABLE YOU MAY CONSIDER VISIT
TO WASHINGTON FOR THIS PURPOSE.

FRIEDMAN

Irving S. Friedman
Office of the President

cc: Mr. Kamarek

Mr. Woods

March 23, 1965

Irving S. Friedman

Preferences for Domestic Suppliers

These are just a few rough thoughts and suggestions which might be helpful in a discussion on preferences for domestic suppliers. It is based essentially on the thought that any solution will and ought to be a compromise based on accepted international practices.

1. Developed countries should be permitted a degree of protection accepted by the international community, particularly by the responsible international agency, namely the GATT.
2. Suppliers must feel that the Bank is concerned with fair and equitable treatment for them.
3. Therefore, the following might guide decision-making on preferences for domestic suppliers:

(a) Existing tariffs are regarded as a maximum. No new tariffs to be introduced unless the country is prepared to bring them to obtain international approval from the appropriate agencies.

(b) No other forms of protection should be permitted. Quotas would be acceptable for balance of payments reasons if internationally acceptable. Any exception would again require international approval by the appropriate agencies, which in this case might also be the IMF if the additional protection was in the form of multiple exchange rates or exchange restrictions.

(c) If the demand for protection seems excessive to the Bank--for any reason whatever--the World Bank could raise the question and, if necessary, insist on a lowering of the protection. Among the indicators of possible excessiveness would be the impact on the cost of the project, the existence of complaints, or the absence of any prior action by an international agency on the tariff. As an approximate guide the Bank might inform countries that anything above 25 per cent might be taken as a prima facie evidence of the protection being excessive.

4. In all cases the Bank would reserve the right to raise with the country the question of the economic effects of their tariff structure particularly for the development process if analysis indicated that existing protection was leading to undesirable investments. This would be a matter for exchange of views with the country concerned.

March 23, 1965

Dear Arthur:

Thanks for your letter and enclosure of March 11. Your note on the Growth and Aid resolution was very interesting, but not encouraging!

I would also like to acknowledge receipt of the updated BIS study Export Credit Insurance and Export Credit.

Sincerely,

Irving S. Friedman

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

March 22, 1965

Dear Mr. Black:

Mr. Woods has asked me to send you
a copy of the attached paper on Brazil.
I hope you find it of some interest and
use.

With warm regards,

Sincerely yours,

Irving S. Friedman

Mr. Eugene Black
The Chase Manhattan Bank
1 Chase Manhattan Plaza
New York, N.Y. 10015

March 22, 1965

Dear Ivar:

Please excuse my not writing sooner to you. First I should say that I read your papers with great interest and found them most useful and have been spreading some of the ideas around the Bank. I am enclosing the memoranda which you asked me to return.

The last couple of months have been both a busy and difficult period for me. Woods has gone through the process of reorganizing the work of the Bank and it has meant a formal extension of my responsibilities. He has now asked me to take the general responsibility for all economic activities of the Bank and to be Chairman of the new Economic Committee, which will have responsibility for making recommendations to the President on economic activities both with respect to individual countries and general policy. At the same time I have been trying to get the substantive work started. I think the outlook is now more favorable that the work will get done and be useful. I have been greatly helped by Mr. Woods's consistent support for the economic work.

My emphasis in the economic work so far has been to try to get people here to start out with the conditions which actually exist in countries and what might be done to improve them. I find that it is very tempting to start out with fascinating and grand schemes for particular projects and then work back into the economy if time and energy permit. I think this runs the risk that things that might be done are neglected and that the order of priorities may simply be wrong. I have found your comments on this constructive and they have become part of my regular thinking. I also find myself emphasizing the need for a realistic appraisal of what is feasible and what can be reasonably expected to happen. Over the years I have become increasingly convinced that the very concept of negotiations may be faulty. I want the Bank and the Fund to have high standards and not to see their scarce resources dissipated or misused, so in that sense I am not at all opposed to the concept of conditions, indeed I am a strong advocate of them. On the other hand I think that these conditions mean very little if they aren't based upon an acceptance of them by the country. The fact that they have been written down on paper does not offer a basis for confidence. I think that I believe in a mutual involvement between these institutions and the countries concerned and the acceptance of a common responsibility, which is quite different from the notion of a customer or client relationship. I think we can all use more humility and more understanding, while at the same time refusing to accept inadequate policies as anything but inadequate.

I do hope you will give me the benefit of any thoughts that occur to you. I trust that this letter finds you and Ingrid enjoying good health. I am hoping to be able to visit with you again in the not distant future.

With warmest regards,

Sincerely,

Mr. Ivar Rooth
Lidingo 3
Sweden

DECLASSIFIED

AUG 16 2023

March 22, 1965

Personal

WBG ARCHIVES

Dear Thorhallur:

I am afraid that I have been delinquent in corresponding. I can only say that the work here has been overwhelming both in volume and emotional absorption. A number of major administrative changes have been made since I came. In effect Woods has asked me to take over the general supervision of all the economic activities of the Bank as well as the more immediate economic groups including the Economic Department. However, he has also agreed to have the Economic Department headed by Andy Kamarck, with Bob de Vries as his deputy, so that as time goes on they should really be able to do a great deal of the work.

I guess that I am still, on balance, pleased that I decided to come to the Bank but have surely not reached the stage where I am convinced that it is a place to stay for a long period of time. I am pleased, however, that I have been able to do a number of the things that I promised Woods I would try to do and that we are well on the way to giving the Bank the added dimension which Woods wanted--namely a concern that the whole process of development and how the Bank might help instead of a concern only with particular projects. I'm afraid that as I get older I get harder to satisfy professionally. I simply don't want to waste my time on things that are either silly or empty of real content, however glamorous they may seem to the outside world. In a way it is kind of amazing that despite all the many obvious problems that exist, how difficult it is to really come to grips with these problems. However, in any case I am not sorry I left the Fund--a change was long overdue.

On the personal side this has been a rather hectic time for us. Kenny has been applying to colleges. So far he has had some acceptances. We will, of course, let you know what the final outcome is. It should be all decided by the middle of April. At the moment it looks as though he will probably be going to Earlham which is a Quaker college in the mid-west, similar to Swarthmore. It is very highly regarded, small and coed. It is not a university but rather purely a college leading to a Bachelor of Arts degree. Edna and Ken are both very pleased that he got in, and so am I, but am reserving final decision until we hear from other colleges and universities to which he applied.

Edna's mother has not been well. Unfortunately she developed a cancerous condition which has been removed by surgery. This was, of course, a trying period. She seems to have come out quite well and we are all optimistic. Mother's spirits are very good--she has taken this very well thus far. Barbara and Reid seem to be enjoying Cambridge.

D. J. CLARK

- 2 -

WAGAN

What are the chances of you and Lily coming to Washington?
I find that I don't even have anyone who will go for a walk with
me! We would all be very happy to have you back.

With love to Lily and the family,

Yours,

DECLASSIFIED

AUG 16 2023

March 22, 1965

Personal

WBG ARCHIVES

Dear Charles:

I am sending you a copy of a memorandum which I wrote last month for Mr. Woods. It has not been circulated in the Bank since it was intended to give him the "benefit" of my present views. If you have a chance to read it you will recognize a number of thoughts and viewpoints we have discussed over many years. I am not sure that you will agree with at least some of my thoughts, but since we have always fully and frankly exchanged views over two decades, I wanted to send you a copy of this on a purely confidential and personal basis.

I know that I bring to the problem a strong prejudice and emotional feeling about controls. However, I believe I can honestly say that this prejudice was acquired from experience and not derived from academic theories or ideologies.

You may be interested to know that you are the only one in the Fed. System to whom I am sending a copy. It is possible that Mr. Woods might give a copy to Bill Martin -- that, of course, is up to him. (It was not written either for publication or general circulation.)

With warmest regards,

Sincerely,

Mr. Lejeune

March 22, 1965

Irving S. Friedman

Consultant - Professor Tamagna

I have been discussing with Frank Tamagna his becoming a consultant to the Bank on the same terms as Isaiah Frank. I would like to have him do some special work on capital markets in the developing countries and other problems. We have discussed his coming down to the Bank on a regular two-day-a-week basis, with the possibility of a third day if his university work permits. I would like to have him start at the beginning of April. He is going to be away for a few months after that visiting various countries and I think it would be very useful for us if he already had an idea of what we are trying to do, since it might affect the sort of thing he will try to find out in the course of his travels. He would, of course, be on a per diem basis, so he would not be earning anything from the Bank while he was away.

I would appreciate your taking the necessary steps to process any papers. Is there any difficulty to his beginning about April 1? He could use the same office as Isaiah Frank since his free days are different.

cc: Mr. Eschenberg

March 22, 1965

Dear Mr. Pearson:

Thanks very much for preparing the summary of my remarks. They were well done and I have only a few comments which you will note.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. Scott Pearson
1430 Rhode Island Ave. NW
Washington, D.C. 20005

March 19, 1965

Economic Committee -- economic work : Suggestions by Mr. Aldereweld

1. Must involve myself in terms of reference for any mission going out on economic work.
2. Must have discussions with mission on return before they begin to write report as to what are the issues.

Mr. George D. Woods

March 19, 1965

Irving S. Friedman

Economic Committee Meeting on Brazil

I believe you will find the attached document on Brazil of interest. You will note that it has been considerably revised as a result of our discussions.

I have had some discussions with Burke on circulation of documents by the Economic Committee and the Loan Committee and believe that we have reached a satisfactory understanding.

Burke is circulating the attached document, together with a copy of the Brazilian mission report to the Loan Committee for its information. He will also circulate the operational paper prepared by the Western Hemisphere Department dealing with loan and technical assistance for the consideration of the Committee.

Attachment

Mr. Friedman

March 18, 1965

Bimal Jalan

IDA Replenishment - Minutes of Meeting held March 17 and 18, 1965

The meeting discussed the question of the likely magnitude of the need for IDA type aid during the next few years. Mr. Avramovic and Mr. Kamarek were present.

Mr. Avramovic said that it was difficult to come up with a quantitative estimate of the need for IDA resources at the present time, but general consideration of development problems in different parts of the world would show that the need for soft aid during the next few years was, at the least, unlikely to decrease. Thus, for example, the two biggest borrowers of IDA, India and Pakistan, are likely, over the next few years, to ask for more IDA type of aid. Their total scale of development effort has been increasing, debt-servicing capacity for further conventional loans or even Bank loans deteriorating, and to make matters worse, there is not going to be any increase in bilateral soft aid. Thus the main burden of financing the external foreign exchange requirement of these countries is likely to fall on IDA. In Africa also, one can visualize, for an indefinite period of time in the future, a rising resource gap coupled with rising absorptive capacity leading to a continuing potential payments deficit. Three African countries at present have no capacity for conventional borrowing, so here also the burden of financing part of development is likely to fall on international agencies. This goes for Turkey too, which faces a difficult debt servicing problem, and expects to experience a substantial deficit on current account over the next few years.

The situation in the Far East is a little different. Most countries in this region are in a comfortable cash position, and the expected resource gap in their development plans can be financed out of conventional loans. But in the early '70's even these countries are likely to run into the debt servicing problem, because of the amortization payments on the accumulated debt of the '60's. There is, of course, a hope that the Far East would continue to be an attractive field for private investment. On the other hand, it has to be recognized that a difficult debt-servicing problem in the early '70's might have an unfavorable effect on the flow of private investment.

Argentina, Chile, Brazil and Colombia in Latin America are at the moment in critical indebtedness position, and it is questionable whether these current account deficits can be closed by domestic measures alone in the near future. The problem here is whether rescheduling operations alone would be sufficient. If not, here are a group of countries which could shift from loans on Bank terms to loans on IDA terms, resources of the latter permitting. In Central American countries the current indebtedness situation is not too bad, but they are at a much lower level of income and are likely to face an increasing resource gap.

Thus, given the gloomy prospects for primary product exports and prices and the fact that import demands of developing countries is likely to grow with their GDP growth, irrespective of the Bank capital requirement projection, for a very long time to come, the balance of payments situation of these countries is likely to be difficult, and consequently their ability to incur conventional loans very limited. One could, of course, take care of their increasing

indebtedness by an increasing gross inflow of capital on conventional terms to take into account the amortization and interest payments due from these countries. But this is an unlikely practical possibility.

Mr. Avramovic believed that this general reasoning could be used to justify anything up to quadrupling of IDA resources during the next replenishment period.

Mr. Friedman concurred, and said that if one included the progressive liberalization of import restrictions in developing countries as a desirable policy objective in one's calculations about the likely need for IDA type aid. The estimates about the magnitude of this need would be even bigger. The estimates of the likely need for IDA aid, of course, depended on what assumptions one made about the total of bilateral conventional and nonconventional loans. If one assumed that the pattern for the future was likely to include a shift to multilateral channels of aid from bilateral, the justification for increasing IDA resources three or four times becomes much stronger. In Mr. Avramovic's thinking the success of the development efforts in developing countries envisaged an increase in all forms of aid and loans - bilateral, conventional, Bank, and IDA. The pace of Bank lending would be determined by how much risk the Bank was willing to take.

Mr. Friedman felt that this was the critical point. In arriving at estimates about the need for IDA aid, one should also have some feelings about what role one visualized the Bank would play in the field of international lending. Could one foresee the IDA overtaking the Bank in the total volume of lending during the next few years? Or, did one see the Bank shifting its area of operations to new regions in Africa, Asia or Latin America, which would keep the demand for Bank loans growing in the future?

The discussion on the above was resumed on March 18, 1965.

Mr. Kamarck said that in making out a case for increase in the resources of IDA, it was also important to answer the question--how long was this process of aiding underdeveloped countries likely to go on? It should be possible to say that given a big increase in the resources of IDA, a whole series of countries would shift from IDA financing to more conventional loans by, say, 1980, and that the year 2000 would see a virtual elimination of AID aid. Mr. Kamarck disagreed with Mr. Avramovic about the eligibility of Latin American countries as possible IDA borrowers, because he felt that some of these countries could attain satisfactory rates of growth without a net inflow of capital, and this is what the objective of developing countries ought to be.

Mr. Friedman felt sceptical about the wisdom of looking that far ahead in the future and committing oneself to a definite date by which all official assistance would come to an end. The most one could say was that if all the other related problems of trade and finance (e.g., compensatory financing, trade in manufactured goods) could be solved satisfactorily, then the need for IDA would perhaps decline after ten years and the need for conventional loans increase. There were too many uncertainties in what the world would look like in future, and one could not therefore promise a decrease in the total of official assistance by a particular date.

On the specific question of what the amount of increase in IDA resources should be over the next five years, it was tentatively agreed that at least a

doubling of resources would be required for IDA to ease the indebtedness problems of developing countries even if its operations were to continue to be determined by the present restricted lending criteria. The two biggest borrowers of IDA, India and Pakistan, which account for two-thirds of total IDA commitments, would alone require at least twice as much soft finance as in the past to avoid serious balance of payments crises. If, however, a liberalization of IDA lending policy or its extension to new areas of operations was contemplated, even trebling or quadrupling the present amount could be justified.

The matter was then left open for further discussion.

cc: Mr. Avramovic
Mr. Kmarck

MAR 18 1965

IDA

1. Ask Departments for examples of what more projects IDA/IBRD might do, if more funds available (and could relax present rationing criteria of IDA).
2. Try to absorb other studies into our judgment.
3. Concept of value of different forms of aid.
4. "Discipline" (or ensured good use of funds) - related to purposes (projects) and accompanying policies - lesser effects from financial terms.
5. Examples of big needs for infrastructure by smaller countries unable to take on budgetary burden even if benefits felt to be much greater than outlays.
6. Can we quantify elements
 - (a) adding to need for IDA:
 - (i) indebtedness
 - (ii) foreign exchange gaps
 - (iii) resource or capital shortage
 - (iv) new areas or countries
 - (v) outlets for exports
 - (vi) new uses, e.g., compensatory financing
 - (vii) expanded project bases
 - (viii) "bottleneck" problem
 - (b) subtracting from need for IDA
 - (i) more IBRD
 - (ii) more other sources
 - (iii) more trade access
 - (iv) shortage of projects
 - (v) unpaid subscriptions by IDA
 - (vi) eagerness of some countries to avoid more "aid" - national and international
 - (vii) continuation of inflation and other undesirable policies
 - (viii) private capital
7. Should we divorce IDA from projects
8. Political attitudes of major governments toward IDA
9. Possibilities of substituting multilateral for national programs
10. Magnitude per annum
11. Terms of availability - grant or "credit" to IDA
12. Tied -v- untied
13. Share among donors
14. Implications for national programs
15. How much are LDC's (Part II) countries paying in interest and amortization on loans and credits from Part I countries (and IBRD)
16. What is present situation and outlook for debt-servicing capacity.
17. What difference has IDA made -- on growth, encouragement of good policies, indebtedness, new projects, or expansion of projects, etc.

18. What has happened to liquidity position of LDCs, including loss of reserves, use of IMF resources, changes in net short and medium-term indebtedness.
19. Statistical tables on 5 during last year.

Mr. Woods

March 18, 1965

Irving S. Friedman

Annual General Meeting BIS

I think that it would be desirable for the Bank to send a senior official for the Annual Meeting of the BIS in June from Washington to head the Bank group attending the BIS meeting. (I presume that in any case someone would be going from the Paris Office.) It would be best if you could head the group yourself.

Mr. Friedman

March 17, 1965

Rimal Jalan

IDA Replenishment - Minutes of Meeting held Tuesday, March 16, 1965

The meeting discussed possible approaches to the question of providing a rationale for the IDA-type of aid to developing countries.

Mr. Frank summarized the three inter-related approaches that could be used in justifying IDA aid and arriving at an estimate of the likely demand for such aid during the period of the next IDA replenishment. The first approach would start with calculating the likely magnitude of external capital requirements of developing countries over, say, the next five years; stress the indebtedness problems of these countries which makes it extremely burdensome for these countries to undertake more conventional loans; calculate the likely amount of non-IDA "soft" loans available to these countries; and finally arrive at a figure for the likely need for IDA aid which would represent the difference between total need for "soft" loans and the total availability of soft aid from other than IDA sources. The second approach would be to emphasize the project approach of Bank loans and indicate the range of various non-Bankable projects which the IDA could undertake. The third approach was to emphasize the comparatively high "grant" component of IDA aid vis-a-vis the Bank loans and its consequent higher value to the recipient countries. The grant element in IDA type of assistance can be computed by comparing the total money cost of IDA credit to a borrowing country with the total money cost of the same amount of credit from strictly commercial sources. The statistical method for undertaking such an exercise is described by Mr. John Pincus in an article on "Cost of Foreign Aid", Review of Economics and Statistics, November 1963.

On the proper use of IDA resources, Mr. Kochav said that it might be well to differentiate between categories of countries, depending on what is the limiting factor to their development efforts:

- (a) countries which suffer from an acute exchange shortage, which usually would also be very low income countries;
- (b) countries which are hampered by their limited ability to raise additional resources - either foreign or domestic - for socially desirable projects. This might be the case even in relatively higher income countries.

For category (a) countries, additional IDA financing could certainly further economic development regardless the particular project financed.

For category (b) countries, additional IDA financing could certainly enable them to carry out most useful - and sometimes vital - infra-structure projects, which otherwise could not be carried out, because of the very high cost involved and long term amortization needed. Even relatively higher income economies often find it almost impossible to finance costly infra-structure projects because of their inability to tap additional financial resources and channel them into socially desirable projects. IDA might be instrumental in financing such projects, which might carry important indirect benefits for the country's development.

As regards IDA financing to similar types of bilateral tied loans, in certain cases the difference might be as high as 15 per cent reflecting the higher costs of certain equipment in the U.S., compared to untied purchases elsewhere.

Commenting on Mr. Frank's positioning of the problem, Mr. Pereira Lira said that the logical way to reach a figure on the appropriate level of the IDA replenishment would be to follow the lines of the extensive study being undertaken by the Avramovic group. Once a conclusion has been reached on the question being examined, it would be useful if the UDC had a global picture on the magnitudes of the different sources of funds which they could conceivably have recourse to:

- loan assistance by the Bank
- IDA assistance
- assistance proposed to be given by major creditor nations under different forms

Each of the UDC would then be in a position to investigate what types of funds they would be more interested to tap, according to their national policies. This might eventually point to the convenience of expanding certain types of funds or contracting others.

Specifically referring to the IDA question, Mr. Pereira Lira said that the difficulty of having the available monies committed--due to the scarcity of "good" projects--might indicate a convenience in stepping up the preparation of those projects by the UDC, with the help of IDA's own money.

Mr. Friedman spoke on the *evolution* of the present operating policy of the IDA and emphasized that the present international acceptability of IDA was accounted for mainly by two facts: (1) the high regard in which the Bank management is held and (2) the insistence on the project approach, however loosely defined, in IDA lending policy. He wanted the members of the group to come up with an acceptable estimate of the economic need for IDA-aid, bearing in mind the limitation imposed by the project approach in IDA lending policy. This would provide a basis for negotiations during the next round of IDA replenishment.

cc: Mr. Pereira Lira
Mr. Kochav

IDA Countries which Rely Significantly on
Balance of Payments Restrictions

Afghanistan	Korea
Algeria	Mali
Argentina	Morocco
Brazil	Pakistan
Burma	Paraguay
Ceylon	Philippines
Chile	Rwanda
China	Spain
Colombia	Syrian Arab Republic
Congo (Leopoldville)	Tunisia
Ghana	Turkey
India	United Arab Republic
Iraq	Viet-Nam
	Yugoslavia

Mr. Richard H. Demuth

March 17, 1965

Irving S. Friedman

GATT - Letter from Karasz

Essentially I agree with Karasz except that perhaps I would be even more cautious about our role in the so-called Group of Experts. As you know I deplore this tendency for the same job to be done everywhere. My basic philosophy is that this sort of work ought to be done by the responsible international agency and those with a collateral interest benefit from the views of the agency primarily responsible. In this case I would feel that any views we conveyed on the East African countries would be views we had developed in the Bank and they were known to our members through our own channels of communication, including our own Executive Directors.

Therefore I would agree with the suggestion that we would attend whenever able to do so but at this stage would not promise to react in writing when we could not attend. Indeed, I think that if it was possible we might even just stop with the promise given in 1963 and not go any further.

I have discussed this briefly with Edgar Jones to ascertain what the IMF reaction is. They are doing virtually nothing until Roger Anderson returns from this present visit to Geneva.

Mr. Woods

March 17, 1965

Irving S. Friedman

Annual General Meeting BIS

I think that it would be desirable for the Bank to send a senior official for the Annual Meeting of the BIS in June from Washington to head the Bank group attending the BIS meeting. (I presume that in any case someone would be going from the Paris Office.) It would be best if you could head the group yourself.

I would be interested in going if this is agreeable to you.

March 17, 1965

Dear Johnnie:

A note of acknowledgement and thanks for your letter of February 18 enclosing the report on the Economic Policy Committee meeting of the OECD. I gather you regarded the meeting as not very interesting--on the other hand I found your memorandum quite intriguing.

With warm regards,

Sincerely,

Irving S. Friedman

Mr. John Duncan Miller
Director, European Office
International Bank for Reconstruction
and Development
4, Avenue D'Iena
Paris 16^e, France

March 16, 1965

Sirs:

Your letter of March 9 1965 was forwarded to me by the Paris office and thank you very much for sending a copy of the English translation of your publication Organization and Functioning of the Principal European Stock Exchanges.

I am sure that we will find it most interesting.

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

Mediobanca
Banca di Credito Finanziario
Milano
Via Filodrammatici, 10
Italy

Mr. Woods

March 15, 1965

Irving S. Friedman

Annual General Meeting EIS

I think that it would be desirable for the Bank to send a senior official for the Annual Meeting of the EIS in June from Washington to head the Bank group. I presume that in any case someone would be going from the Paris Office.

It would be best if you could head the group yourself. I would be interested in going if this is agreeable to you.

Mr. Richard H. Demuth

March 12, 1965

Irving S. Friedman

DAC Meeting - March 22-23

Karasz telephoned yesterday to say that there was going to be a meeting of the Langley group (DAC) on various theoretical aspects on assistance requirements. The meeting will be on March 22 and 23. He wondered whether the person going to Paris next week for the meeting of the group of experts on the uses of analytical techniques, could also attend that meeting. I am planning to have Gulhati go, since Drag is too busy. Karasz incidentally is going to the GATT meeting at that time.

ISF:prl

March 12, 1965

Dear Arthur:

Thank you for your letter of February 26, concerning paragraph 9 of the UNCTAD Resolution on the promotion of private investment. You asked what is being done about the invitation to the Bank, contained in that paragraph, to "include in its studies" the problem of guarantees of securities of private enterprises or public institutions of developing countries floated in the markets of developed countries.

The two preceding paragraphs of the Resolution asked the Bank to submit to the United Nations "the results of its studies and consultations" on the subject of investment insurance and settlement of investment disputes. It seemed to us a fair construction of paragraph 9 that we were being asked to include, in the text of one or the other of these studies, the problem of guarantees. That problem has no particular relevance to the settlement of investment disputes, and so it has been our intention to deal with the question as an aspect of our report on investment insurance. As you know, the Bank has guarantee authority under its Articles but, for a number of reasons, decided long ago not to exercise it. Unless by the time the staff report on investment insurance is completed that policy has been changed, our report would simply refer to the existence of the authority, set forth the present policy and briefly explain the reasons for it.

I do not suggest that you need go into this much detail with the Elson Group. I think all you need say, if the subject is raised, is that our present thinking is to cover the subject of paragraph 9 in our report on investment insurance. I am looking into the question separately from the UNCTAD. If this affects our thinking, I will so inform you.

With kind regards,

Sincerely yours,

cc: Mr. Demuth
ISF/SB/vch

Irving S. Friedman
The Economic Adviser to the President

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



Record Removal Notice

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		<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
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Mr. M. M. Mendels

March 16, 1965

Irving S. Friedman

IBRD Basic Documents - Memorandum 65-2

May I assume that on your next regular issue of Q-1 of the list of Officers of the Bank you will list Mr. Kamarek as Deputy Chairman of the Economic Committee, as well as Director of the Economics Department, now that the Economic Committee has been established.

ISF:prl

Mr. George D. Woods

March 12, 1965

Irving S. Friedman

Comments on Report by Mr. Hermann J. Abs "The European Security and New Issues Market with a View to International Financing"

I have read through the report, although not as slowly and thoughtfully as I believe it merits. I have tried to mark off the parts which I believe you will find interesting. I would think that you would find the country sections on France and Germany particularly worthwhile. If you have time I would recommend the pages 44 - 59 'The Formation of an International Security and New Issues Market in Europe'. As you might have expected Mr. Abs lays emphasis on the advantages of his prior proposal for European parallel loans.^{1/}

My first reaction is to welcome his thoughts that more bond lending could take place in Europe, although I think he tends to over-emphasize the potential role of Europe as compared to the U.S. However, what would seem to really matter is that more could be done in Europe. He takes a side-swipe (page 50) on the Euro-Dollar capital market.

Mr. Abs has an interesting table beginning on page 79 which sets forth foreign bond issue in Europe from July 1963 to September 1964 in U.S. Dollar, Units-of-Account, Swiss Francs, D-Mark, which may be summarized as follows:

DM bond issues (DM 895 million)	\$224 million
Swiss Franc bond issues (S.Fr 633 million)	147 million
Unit-of-Account bond issues (U.A. 41 million)	41 million
	<u>\$412 million</u>
European Dollar bond issues	\$423 million

In view of your imminent departure I have taken the liberty of sending this memorandum and the report back to you immediately, rather than on to Mr. Cavanaugh who is next on the routing slip.

^{1/} *restriction* On first reading I think that Mr. Abs may be somewhat over-optimistic with respect to the difficulties of his proposal in views of differences in Government ~~reaction~~ on security markets in various European countries. I also think he may be somewhat optimistic on interest rate differentials becoming less important, at the moment these differences still seem to be significant within Europe. As between Europe and the U.S. despite the interest equalization tax there may still remain considerable differences reflecting the under-lying economic and financial situations.

Mr. Irving S. Friedman

March 11, 1965

Bimal Jalan

International Liquidity - Dr. Blessing's Speech

In a speech on March 8, 1965 Dr. Blessing, President of the Bundesbank came down for a continuation of the gold-exchange system with liquidity problems left basically in the hands of the IMF and the Club of Ten. But he also supported a coordinated Common Market monetary policy, a more uniform holding of gold and currencies in national reserves, and more discipline for countries in payments deficit. A fuller report of his speech taken from London Times, March 9, is attached.

However, while Dr. Blessing took the usual view that the world's payments system has been endangered by the American deficit, Mr. Gardner Ackley, the President's Economic Adviser asserted to the contrary and stated that reform of the world's monetary system was needed "not primarily because of the U.S. deficit but because in the absence of such a deficit - and the deficit will disappear - further growth of world reserves would be roughly limited by the rate of gold production."

BJ:prl

March 11, 1965

Dear Ian:

It was good of you to write to me, it has been a long time since we have heard from you. Thanks for your congratulations on the new appointment. It involves the responsibility for the economic activities and operations of the Bank. I do hope that I have the energy, patience, and perseverance to do what is expected of me. I had some thoughts of coming to India this Spring but I don't think I will I am rather thinking of going there about next January.

As far as Mr. Palekar, I think there would be some point in his applying and I am enclosing a form for him to complete, which he could return to me.

- I do hope that you and your Wife are enjoying Bombay. It would be very nice to get out there when you are there, and to be sure I will let you know if I do plan to go. I would hope that if I come out Edna would be along.

With warmest regards to you and your Wife.

Sincerely yours,

Irving S. Friedman

Mr. Ian MacKinnon
Glaxo Laboratories (India) Private Ltd.,
Dr. Annie Besant Road,
Worli, Bombay 18 - WB.
India

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SEP 19 2023

WBG ARCHIVES

March 11, 1965

Personal

Dear Dr. Coombs:

By now you have undoubtedly received a copy of Ron Jones' letter to me of February 18. I was, of course, disappointed but perhaps he might come at some future date.

For the time being would you have any other suggestions to make. The work here grows by leaps and bounds. I know that anyone you send will find it most challenging and exciting - but he had better be a hard worker.

I do hope you will have other suggestions to make and look forward to receiving them.

With kind regards,

Sincerely yours,

Irving S. Friedman

Dr. H. C. Coombs
Governor
Reserve Bank of Australia
Martin Place
Sydney
Australia

ISF:prl

March 11, 1965

Dear Ron:

Needless to say I was sorry to get your letter of February 18. However, if at a future date you think it is feasible please let me know.

I had looked forward very much to having you here, even if only for a limited period of time.

With kind regards,

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. R. F. Jones
Manager for Tasmania
Reserve Bank of Australia
Martin Place
Sydney, N.S.W.
Australia

ISF:prl

cc: Mr. Eschenberg

March 11, 1965

Dear Marris:

I read with interest your letter of March 3. I do hope and indeed expect that we can be helpful on your enquiries, and I have put this into the mill marked 'urgent'. You can therefore expect to be hearing from me again on this.

My work is growing like 'Topsy' and I am sure I have bitten off more than I can chew and surely more than I can digest.

What are the chances of your getting back to the U.S.? I hope to be in London myself in the not too distant future.

With warm regards.

Sincerely yours

Irving S. Friedman
The Economic Adviser to the President

Mr. R. L. Marris
Ministry of Overseas Development
Eland House
Stag Place
London S. W. 1
England

March 11, 1965

My dear Bernard:

Thank you very much for your letter of February 20. I was glad to hear that you might be in Washington sometime this year. If so, please leave time for visiting with us.

As for the Horowitz Proposal you asked whether I thought the proposal would really get through. Of course, I don't know, and my purely personal guess is that it won't go through at least in its original form. However, I think the discussion of the proposal, which has already taken place, will affect the attitude of Governments towards IDA and more especially the coming replenishment of IDA.

Thanks again for all your help, and hope to see you soon.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. Bernard de Margerie
7 Av. de la Bourdonnais, Ville
Solferino 85-11
ITALY

ISF:pr1

March 11, 1965

Dear Bryan:

Please excuse my not answering sooner, but I have been away from the office a great deal, and swamped by my new job when I am here. I was most interested to learn that you are leaving the Treasury shortly for a year, but regret that it is not to come to the Bank.

However, I am very happy to continue to consider you as a possible appointment. Indeed if you are prepared to undertake the commitment we might be able to arrange an offer as of the time you become available. I have not discussed this with the Administration people, but so far they have been most cooperative in understanding my eagerness to get certain people. I do hope therefore that you decide to make the Bank part of your definite plans for the period after March 1966.

Your trip sounds most interesting. If there is any way I can be of help in meeting people, particularly in India, please let me know.

With best wishes,

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. W. A. B. Hopkin
30 Laurier Road
London, N.W. 5
England

ISF:pr1

March 11, 1965

Dear Professor Schmidt:

I am flattered by your letter of February 17. It is always nice to hear that something you have done or promised to do is regarded as useful. However, my new job in the Bank has been simply swamping me and I am just not making any promises these days, even to myself.

I do hope you are enjoying Bologna. I promise to write to you as soon as I have something.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Professor Wilson E. Schmidt
The Johns Hopkins University
Bologna Center
Via Belmeloro 11
Bologna
Italy

Mr. George D. Woods

March 10, 1965

Irving S. Friedman

Fact Finding Enquiry - Suppliers' Credits and Tied Aid
in Pakistan and India

I have discussed with Mr. Demuth the question of sending one or two people to Pakistan and India respecting tied aid and suppliers' credits. We agreed that:

1. This should be entirely a fact finding mission leaving open for future decision what the next step would be. As I explained to Mr. Demuth my feeling was that the next step might be the DAC, or the India Consortium, or part of our discussion on Consultative Groups, etc, and I felt it was best to see the facts obtained first and then judge at the time what the next step might be.
2. The enquiry would be entirely of an economic and financial character. The person in charge would be Mr. Pereira Lira and Mrs. Boskey would accompany him. It was felt that this would be an opportunity for Mrs. Boskey to get some first hand acquaintance with the less developed countries, and her experience in the Bank would be helpful to Mr. Pereira Lira.
3. Mr. Demuth indicated that he would like to get involved at a later stage when the time came to decide what the next step should be after the material had been collected. I told him I thought this was right.

I will be talking to Mr. Pereira Lira and Mrs. Boskey along the above lines. I will suggest that they plan to go as early as feasible and think of this as a two-week mission with the option to stay longer if experience indicated that a more extended stay was profitable.

However, before making any final decisions we will be talking to Mr. Stevenson.

cc: Messrs. Wilson & Demuth

ISF:prl

Mr. George D. Woods

March 10, 1965

Irving S. Friedman

U. K. Swedish Proposal

Work on the U.K. Swedish Proposal for the UNCTAD has now reached the point where I could take some time off to summarize in writing what we have done, and where we are likely to come out, in the way of concrete proposals and suggestions. Before doing so I thought I might enquire whether you would prefer to have a written memorandum or an oral presentation and exchange of views. In view of the nature of the subject I think there might be some merit in an oral exchange, but I am quite happy to do it in writing if you so prefer.

In view of their forthcoming departures I have outlined in some detail to both Messrs. Wilson and Demuth what we have done and where we are coming out on this study. Both seem quite favorably impressed, but of course they have not seen anything in writing.

ISF:pr1

Mr. George D. Woods

March 9, 1965

Irving S. Friedman

Role of Economic Committee

I have just read Mr. Broches' memorandum of today's date on this topic and would like to give my quick reaction.

May I begin by stating that I regret that Mr. Broches did not see fit to talk to me first, but I presume that this is his prerogative.

With respect to the substance of his comments I would like to draw your attention to his wording of the suggested action of the Committee which is set forth in paragraph 15. It will be noted that the only definitive judgment is that which is contained in 15a with respect to creditworthiness. With respect to paragraphs b, c, and d, it is clear from the language used that these are statements of the economic aspects of these problems and not a recommendation for action. In all cases it clearly says that in this case that "consideration should be given". There is no attempt whatever here to reach a conclusion with respect to what the judgment ought to be, when such consideration is given by appropriate authorities in the Bank.

In our quick preparation of the Brazilian paper I am sure that there may be flaws in the presentation, but not in the intent. We fully intend to abide by the wording of the operational memorandum on the Economic Committee and will continue to do so. I am, of course, always glad to get the comments of my colleagues, but would suggest that some seeming differences may only be due to language, which direct contact could clarify.

ISF:Pr1

cc: Messrs. Knapp, Wilson, Aldewereld, Broches, Demuth

March 9, 1965

Dear Mr. Anderson:

Thank you very much for your invitation to attend the Symposium on Federal Taxation on March 26. With this limitation I am glad to accept the invitation. I am sure that the Symposium will be very interesting.

At the moment I am due to accompany Mr. Woods when he addresses the ECOSOC on the 26th. I believe that I can probably be at the Symposium for the afternoon session.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. Robert B. Anderson
General Chairman of the Symposium
The American Bankers Association
90 Park Avenue
New York
NEW YORK 10016

ISF/pl/vch

Mr. George D. Woods

March 9, 1965

Irving S. Friedman

The newspapers the other day gave considerable attention to the attached publication of the Chase Manhattan Bank. The newspaper stories were to the effect that the Chase Manhattan people estimated that the effects of the voluntary restraints and other measures taken to reduce the deficit would be in the magnitude of \$1.7 to \$3.6 million.

I had been rather surprised at this estimate, but reading the attachment itself indicates that these figures are not an independent estimate by the Chase Manhattan people but primarily a tabulation of what would happen if the controls were as now announced. In any case, however, I think you will find their tabulation interesting.

ISF:prl

March 8, 1965

signed 3/9/65

Dear Mr. Beliveau:

Your letter of February 16 has been referred to me for reply.

The Bank does not deal with questions of international monetary policy and, therefore, does not have any documents covering the sort of problems that you mention in your letter. We have, however, referred your request to the International Monetary Fund, which is the competent international body in this field.

Sincerely yours,

Harold N. Graves, Jr.
Director of Information

Mr. Robert Beliveau
932 St.-Frs.-Xavier
Trois Rivieres
Quebec
Canada

ISFriedman/vch

March 8, 1965

Dear Sidney:

Thank you for your letter of February 26.

I enclose a copy of the record, prepared for me by Mr. Jalan, of our meeting on February 6. I haven't had any time to edit this report, and I would like you to treat this as an unofficial record for your personal reference only.

We are at present reviewing our work on compensatory financing, and I shall let you have a reply to the questions you raised in connection with the scope of this study immediately after we have reached a decision in the matter.

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

Mr. Sidney Dell
Director
Research Division
Centre for Industrial Development
United Nations
New York, NEW YORK

Enclosure

B.Jalan/vch

March 8, 1965

Dear Mr. Slater:

I am writing in reply to your letter of February 25. Please feel free to call me on this. It is hard for me to fix a time, but I am in Washington most of the day, and if I am out when called I will be glad to call back.

May I say that there was no attachment to your letter.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. J. E. Slater
Coverdale & Colpitts
Consulting Engineers
120 Wall Street
New York
New York

ISF:pr1

March 8, 1965.

Dear Arthur:

Thank you for sending me the copy of the
paper enclosed with your letter of February 26.

With warm regards,

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. Arthur Karasz
I.B.R.D
4 Avenue d'Iena
Paris 16
France

ISF:pr1

March 8, 1965

Dear Douglas:

Please excuse my delay in replying to your letter of January 22, but I have been away from the office a great deal, and settling into a new job is proving to be very hectic. I am looking into your enquiry and do hope to be able to have some answer for you soon.

With best regards to Bill, you and others.

Sincerely yours,

Irving S. Friedman

Mr. Douglas C. Gunsekera
c/o, Central Bank of Ceylon
Colombo
Ceylon

ISF:prl

Mrs. Shirley Boskey

March 8, 1965

Irving S. Friedman

UNCTAD Resolution A.IV.12

Your help on the attached letter would be appreciated. Do you know what we have done on any special work for paragraph 9 of the UNCTAD Resolution A.IV.12. I have been giving thought to the general question raised by this Resolution, namely the possibility of the use of the guaranteeing authority of the Bank. I have also had some chats with Mr. Kamarck on this but all in the context of the regular work of the Bank. Is there something special that we have done or have promised on this Resolution? Thank you.

ISF:prl

Mr. George D. Woods

March 8, 1965

Irving S. Friedman

U. S. Balance of Payments Memorandum

Attached hereto are two copies of the memorandum on the U.S. Balance of Payments in case you wish to send copies to others. (You had mentioned Messrs. Cook and Martin.)

ISF:prl

March 8, 1965

My dear Meenai:

I was very sorry to receive your letter of February 27, 1965, particularly to learn of the ill health of both of your parents. I regret that they are not at present in a position to leave Pakistan.

I can well understand your dilemma. Needless to say I was looking forward very much to having you join us soon. There are many interesting things waiting for you to do including heading an interesting mission to Spain for us. However, I am most reluctant to tell you to ignore your obligation to your parents. Do you think it would be possible for you to fix some later time in the year when you feel that the health of your parents will become clearer? As far as I am concerned I am keeping a position for you in the hope that you will find it possible to come.

With warm regards,

Sincerely yours,

Irving S. Friedman

Mr. S. A. Meenai
State Bank of Pakistan
Central Directorate
Karachi
Pakistan

ISF:prl

March 5, 1965

Dear Fred:

I am enclosing a check for \$847.75 which I believe is the outstanding balance on our house. I do hope there is no misunderstanding about this. We have still not had finished certain things that were promised from the beginning. The painter came over recently, but has not been here again. Whoever did the garage floor has left planking which we do not know whether you are supposed to remove. Our water supply is still muddy, the promised tree, etcetera.

However, in view of our friendly relations I would rather pay you and leave it up to you to see what you can do about these other matters.

Sincerely yours,

Irving S. Friedman

Mr. Frederick Williams
Coakley & Williams, Inc.
2301 Kansas Avenue
Silver Spring
Maryland

Mr. George D. Woods

March 5, 1965

Irving S. Friedman

U. S. Balance of Payments Memorandum

Attached hereto are some copies of the memorandum on the U.S. Balance of Payments in case you wish to send copies to Messrs. Cook and Martin as you were considering.

Attachments:

Mr. Michael L. Lejeune

March 4, 1965

Irving S. Friedman

Organization Chart

I would like to make the following comments on the attached chart:

- (1) Would it not be desirable to include Economic Advisers in the Area, Projects and Economics Departments? I had thought that the concept behind the recent circular giving the senior personnel was to give more status to the Economic Advisers.
- (2) Would there be some way of recognizing the existence of the group directly assisting me?
- (3) Perhaps my group could be included in the same box which now contains Avramovic's name. In this way it would be clear that there are really two groups reporting to me; one, quite large, the Economics Department, and the other, the small group including Drag.

ISF/vch

March 4, 1965

Dear Professor Balassa:

I am sorry that you had difficulty in getting to Washington. March 19 is agreeable to me. May I suggest 11:30 a.m. If this is not convenient to you please feel free to suggest sometime in the afternoon.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Professor Bela Balassa
Department of Economics
Yale University
New Haven
Connecticut

ISF:pr1

March 4, 1965

Dear Mr. Valenti:

Mr. Woods has asked me to send a copy of the attached memorandum for your personal use.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. Jack Valenti
Special Assistant to the President
The White House
Washington, D.C.

Mr. Michael L. Lejeune

March 4, 1965

Irving S. Friedman

Operational Memoranda - Economics Department
Economic Committee

Mr. Woods would like to have these two documents issued.
I would appreciate if your office could do whatever is necessary.

ISF:prl

GABRIEL FERRAS
GENERAL MANAGER
BANK FOR INTERNATIONAL SETTLEMENTS
BASLE

MARCH 3, 1965

NLT

SWITZERLAND

PLEASED YOU CAN HAVE DINNER WITH US ON 23 RD. STOP IN ADDITION
WOULD BE HAPPY TO ARRANGE FOR YOU TO LUNCH WITH SENIOR OFFICIALS
OF BANK IF YOU ARE FREE ON 23RD OR 24TH REGARDS

FRIEDMAN
INTBAFRAD

Irving S. Friedman

Office of the President

Mr. Michael L. Lejeune

March 3, 1965

Irving S. Friedman

Staff

As you know, the following people have been seconded to me. I would appreciate your planning that they continue indefinitely in this arrangement.

Werner Schick
Gabriel Sciolli
Rudolf Hablutzel
Wilfried Thalwitz
Ravi Gulhati
Andre Nespoulous-Neuville
Bimal Jalan

In addition Messrs. Hulley and Isaiah Frank have been helping out as consultants.

I also need someone to help out immediately on the Annual Report. For this I could use one of your best graduates of the Junior Professional group and would be pleased to have a suggestion.

Most of these people are not on my administrative rolls but are assigned to other departments. This arrangement should also be continued. I presume the bulk of them should be in the Economics Department, although it would be preferable for Nespoulous-Neuville to stay as he is, if that is at all feasible.

cc; Mr. Kamareck

Mr. George D. Woods

March 1, 1965

Irving S. Friedman

UNCTAD Studies

On Thursday, February 25, Mr. Griffith Johnson, Assistant Secretary of State for Economic Affairs, came over for lunch. He was accompanied by Mr. Philip Trezise and Isaiah Frank. They were coming over to say hello, and to explore some of the new work we have been doing in the Bank.

They were very interested in what we were doing on the U.K. Swedish Proposal for the UNCTAD and seemed to be favorably impressed with the approach which I have been developing. We also discussed what is being done with respect to suppliers credits. As in other discussions with U.S. officials I found them quite well disposed to the idea of the Bank taking an initiative in trying to find rules of conduct governing medium-term credits.

Secondly, we also got on to a discussion of the U.S. balance of payments restraining measures. I got the distinct feeling that these two gentlemen were not hopeful about the effectiveness of these measures. I was really quite surprised to find that they expressed complete agreement with my own personal views on how best to manage the U.S. balance of payments, even on the significance of U.S. gold holdings.

They indicated that they would like to keep in touch, and that we might have further discussions on some of these UNCTAD studies and related matters as their ideas and ours develop further.

February 26, 1965

Dear Jack:

Please excuse me for not answering your letter sooner but this has been a very hectic time for us. Edna's mother has been ill and required operation, and we have been spending weekends in New York trying to be helpful to her.

I am very pleased at the thought of your coming to Washington. Needless to say we would be very happy to have you stay with us. In any case please spare us at least one evening. Perhaps it would be better if I suggested a night to be set aside; may I suggest either Friday, April 23 or Saturday, April 24.

As for people in San Francisco, I don't know many. I do know, of course, some of the banking people but you will be meeting them anyway. However, I think that you would find it interesting to meet Eugene Staley who is at Stanford Research. He is a very eminent academic figure in international economics and also a very nice person. I am sure he would be pleased to meet you and would introduce you to other people in the academic and near academic community which might be of interest to you. If other names occur to me I will write to you further on this. Would you like me to write to Staley?

The work here proceeds. I am not displeased with having made the change to the Bank, but I still feel that there are rich possibilities here for interesting work, but much of it is quite frustrating. However, don't take this as a complaint rather it is just a comment. We can talk more about it when we see each other.

With love to Kathleen, I am looking forward to seeing you both,

Yours,

Irving S. Friedman

Mr. Jack Portsmore
Bank of England
London, E.C. 2
England.

February 26, 1965

Dear Gabriel:

Thank you very much for your letter of February 22. It would have been fun to have you stay with us, but I can understand you wanting to be more centrally located. How about planning to spend the evening of Tuesday, March 23, with us. If this is not convenient to you please let us know.

We went to New York last weekend and took Edna's mother home from the hospital. She seems to be doing fairly well - indeed as well as one might hope under the circumstances but concern, of course, is always about a recurrence but the doctors seem quite hopeful in this respect. Her morale fortunately is very good.

For the moment at least I am not making any plans about coming to the March meeting. I was considerably influenced by the fact that you were coming yourself during March. Also I am still very much in the organization phase here and finding myself simply unable to keep up with what I have to do. I will tell you more about it when we see each other, some of it is quite frustrating but much of it is promising and exciting.

Incidentally if you have any staff members who are eager for a change I would be happy to have some suggestions, even of people who might come here on a leave of absence for a relatively short period of time.

With kindest regards,

Sincerely yours,

Irving S. Friedman

Mr. Gabriel Ferras
The General Manager
Bank for International Settlements
Basle
Switzerland

Mr. Irving S. Friedman

February 26, 1965

W. P. Thalritz

Supplementary Finance Scheme

The following note might serve as an agenda for the coming round of meetings. It contains a list of some essential features for which the choice among alternative solutions remains to be made. Every member of the group contributed to this list. On some issues we had reached tentative conclusions in earlier meetings, but while preparing and writing parts of the report we found that these conclusions need to be reviewed since on a number of issues alternative solutions still appear possible. Further analysis and final decision has to be made on these points:

I. The concept of expectations

Projections based on past export data alone (moving or fixed averages, or mathematical curves) are unsatisfactory. The "commodity approach" however could take into account all the available evidence with respect to supply, demand and prices of individual commodities.

Four major questions remain:

- (a) How can shortfalls be assessed in cases where a country had not previously worked out projections in consultation with the Bank?

Alternatives:

- (aa) IDA refuses assistance; insists generally on initial consultations.
- (ab) IDA considers the application trying to use the "commodity approach" ex post in order to reconstruct projections it might have agreed to at an earlier date with the information then available.

- (b) How frequently should expectations be revised?

Alternatives:

- (ba) Projections remain unchanged for the duration of a plan period, if a plan exists.
- (bb) Projections are revised even before the end of a plan period if new evidence points to a lasting shift in export earnings.

Mr. Irving S. Friedman

February 26, 1965

- (bc) If no plan exists projections are fixed for a specified time (3-7 years).
- (bd) Projections for countries without development plans are changed whenever a long-term change in export projections becomes apparent.
- (c) Are export projections feasible in all developing countries?

Alternatives:

- (ca) Technical assistance can make them feasible.
- (cb) Technical assistance cannot be effective in all cases.
- (d) Measurement of shortfall.

Alternatives:

- (da) Allowing for averages.
- (db) Not allowing for averages.

2. Development plans

What are the minimum conditions regarding development planning on policy which have to be met for the scheme to apply?

- (a) The scheme applies only to formal development plans.
(What happens when IDA and the country concerned cannot agree about important features of the development plan)?
- (b) The scheme also applies where an informal plan exists.
Define what is meant by an informal plan.
- (c) The scheme also applies where there is no plan but there are a set of macro-economic projections derived from historical behaviour on the assumption of neutral policies.
- (d) Scheme applies universally.
- (e) IDA provides assistance in the first instance of shortfalls but makes further assistance conditional on the adaptation of development policies or a development plan.
 - (i) Technical assistance can make a plan where none existed in the first shortfall.
 - (ii) Technical assistance may not be effective in all cases.

Mr. Irving S. Friedman

February 26, 1965

*order of priority
in paper
(c) means don't agree!*

3. Form of assistance

Alternatives:

*preparing of money
credit worth full fact
approval benefits?
fund program
AID word?*

- (a) Project aid, suitable projects are identified and appraised during and after consultations but before the shortfall occurs. IDA takes over financing of preselected projects if projected export earnings fail to materialize.
- (b) Project aid; but vary the proportion of total cost financed by loan.
- (c) Combination of project loans and cash loans with the ratio determined by the availability of suitable projects in individual cases.
- (d) Cash loans.

4. Terms of credit

Alternatives:

- (a) Uniformly IDA conditions.
- (b) Variations of terms based on judgment in individual cases on creditworthiness, income per capita, size of shortfall, nature of disruption.

5. Resources

- (a) Initial subscription and recurrent contributions to be paid up at specified dates, with or without limitation on the total contribution.
- (b) Initial subscription plus pledges for recurrent contributions in the form of promissory notes.
- (c) (a) or (b) plus use of normal IDA funds with a provision to shift funds from the scheme to IDA proper. (Should the scheme have a separate fund)?

(S)

*If needed -
(a) must meet need of problem directly
(b) order of attention -
(c) projects
(d) removed duty
(e) relate to develop program - not long run
not stable
removed periodically*

GABRIEL FERRAS
GENERAL MANAGER
BANK FOR INTERNATIONAL SETTLEMENTS
BASLE

FEBRUARY 26, 1965

NLT

SWITZERLAND

ARE YOU FREE MARCH 23 TO HAVE DINNER WITH US STOP LETTER FOLLOWS

FRIEDMAN
INTBAFRAD

Irving S. Friedman

Office of the President

Re: [unclear]

Mr. Lejeune

February 25, 1965

Irving S. Friedman

Staff

I thought it might be useful to record that of the following people who have been seconded to me I would appreciate your planning that they stay with me indefinitely:

Werner Schick
Gabriel Sciolli
Rudolf Hablutzel
Wilfried Thalwitz
Ravi Gulhati
Andre Nespoulous-Neuville

Bimal Jalan

In addition Messrs. Hulley and Isaiah Frank have been helping out as consultants.

I also need someone to help out immediately on the Annual Report. For this I could use one of your best graduates of the Junior Professional group and would be pleased to have a suggestion.

As you know it is my intention that these people would not be on my administrative rolls but rather assigned to other departments. I presume the bulk of them would go to the Economics Department, although it might be preferable for Nespoulous-Neuville to stay as is if that is feasible.

cc: Mr. Kamarok.

Mr. Kamarck

February 25, 1965

Irving S. Friedman

I would appreciate your quickly suggesting who might do this. Perhaps it might be one of our less recognized and more junior economists.

Attachment

Mr. Kamarck

February 25, 1965

Irving S. Friedman

Trade and Development Board

Mr. Consolo thinks that we might wish to send some technician to attend the meetings dealing with Items 7 and 8 on the attached Provisional Agenda. I think we might also wish to be there for Item 6.

Also attached is a paper spelling out I believe, Item 7. Your recommendations on this would be appreciated.

Attachments

FOR PRESIDENT'S COUNCIL

1. Net evaluation
2. Don't want outside advice -- surely not from Consortium perhaps from IBRD or IDA
3. Roll-over plus drawing of somewhat more than one tranche from IMF -- not yet decided.
4. Appreciated point about increasing medium-term debt when already a problem but felt that no other funds were available and further intensification of import restrictions simply not feasible.

Argamas memo

Mr. Kamarck

February 19, 1965

Irving S. Friedman

Visit of Professor Dorfman

Mr. Sadove and Mr. Dorfman called today. I had originally thought that the idea was to meet with Dorfman as a possible candidate, however, it got involved in the question of the Bank's approach to the India River Basin. The issue seems to be one of "how do you go about selling projects--one by one -v- an over-all approach". Needless to say I told them that my feelings were in favor of a general approach but I was far from an expert on Pakistan. I gather that both Sadove and Dorfman favor a general approach but are finding some resistance to it. They would like very much to have effective participation by us in their work. I gather that van der Tak is going with Mr. Lieftinck and Mr. Sadove on Wednesday but he unfortunately could not stay at the meeting today.

You might wish to speak to Mr. Sadove. I believe we should encourage his efforts to achieve an over-all approach. He seems to feel that this is something my group could do with the participation of others. I am sure that he would accept the idea of Economics Department lead or otherwise major participation in a combined effort of the interested Departments. I must say that it sounded so interesting that I nearly took my own coat off to go to work.

Mr. Kamarck

February 19, 1965

Irving S. Friedman

Operational Memorandum - The Economics Department

Mr. Woods has agreed to the attached but has eliminated the word "etc.". He points out that the list is not exhausted since it includes "Bank/IDA".

It can be taken as agreed but he will be showing it to Mr. Wilson on Tuesday. If there are any questions raised on this on Tuesday I presume they will wait until my return on Wednesday.

Attachment

Mr. Kamarck

February 19, 1965

Irving S. Friedman

Attached is a memorandum sent by Mr. Krebs of the Deutschesbank, presumably for discussion with Abs, which was sent to Mr. Rosen. I have discussed this with Mr. Rosen and he will be informing Mr. Krebs that we are prepared to do more work on this and will be coming back to him on more precisely what might be involved.

Attachment

Dear Raul:

I am very sorry but try as I may I am unable to bring myself to making an affirmative response to your request.

I do want to be of maximum assistance to UNCTAD and to you as its Secretary-General. However, we are seriously understaffed in the area of economists. As you know, we have undertaken a number of tasks which require original thinking by trained economists' minds in addition to the ever-growing regular work of the Bank. We are making progress in creating a strong team of economists which I believe will be outstanding in the development field, but this process may take a year or even more. In the meantime I simply can't spare Drag Avramovic who is one of our top economists.

I believe that Drag as an important member of a strong, experienced and continuing Bank team can be of major effective assistance to you. Among my reasons for this belief is the conviction that greater and sounder progress in the various programs to assist development will be made through well coordinated efforts as a result of which the UNCTAD will also benefit from our labors here.

I hope you will understand my position.

Warm personal regards.

Cordially,

George D. Woods

Dr. Raul Prebisch
Secretary-General
United Nations Conference on Trade and Development
United Nations
New York, N.Y.

GDWoods/ISFriedman/pr1

Mr. George D. Woods

February 18, 1965

Irving S. Friedman

Washington Post Editorial - Monetary Drift

I believe you will find of interest the attached editorial in this morning's Washington Post, if you have not already read it.

It is the kind of thing, said in the sentences which I have marked, that I find particularly distressing. It so completely swallows the line that the U.S. dollar is weak because the U.S. balance of payments is in deficit that in a completely matter of fact way it can speak of the United States and Great Britain not being "in a strong position to counter the Gallic thrusts", and then in the end favor the serious consideration of the separate monetary blocs, even though they would "widen the political rifts in the non-Communist camp".

It is this kind of philosophy of despair which is beginning to permeate so widely that I believe is unwarranted in fact, and leads to unrealistic and harmful government policies.

Attachment

Mr. Andrew Kamarck

February 18, 1965

Irving S. Friedman

Staff

1. I believe that you ought to ask for about 50 or 60 more economists in the next budget. I arrive at this figure as follows:

The Economic Adviser to the President will probably be involving about 20 economists in his work during the next year, of which only about 5 or 6 will come from his own office. Secondly, discussions with the Projects Department indicate that they probably would like to have another 5 or 6 economists working on their kind of problems, while similarly, the International Finance Corporation would want a few people working on their problems which would not really be covered by the work of others. This alone would give about 30 people. In addition, to carry on the work of the Economics Department which is not included with that which has been mentioned thus far, will probably take a corps of people plus strengthening the work being done on individual countries. The Economics Department should encompass groups on statistics, basic research, operational research, econometrics, etc.

2. I am thinking that we ought to be planning a publication called Development Economics which would be similar to Staff Papers of the Fund to be contributed by members of the staff of the World Bank and be a by-product of their work. It would be difficult to get such a publication mounted at the present time, but it would take a number of months, if not a year, to plan adequately. In the meantime the people should be here and beginning to do the kind of work that would provide the necessary flow of articles.

3. If there is some complaint about too many people being contemplated for the Economics Department it would be possible to think in terms of a two-year program of recruitment, leaving open the possibility of having even more in the second year if the work gets started more rapidly and people are recruited more rapidly than it is now thought possible.

4. It is very essential to nail down the point again with the Administrative people that in recruitment of young economists we are not to be bound by the limitations of the present Junior Professional Program. There are undoubtedly a number of young economists who would be prepared to come to the Bank but would not be interested in the kind of experience now embodied in the Junior Professional Program. It would be better to get such people, and after they are here and have made their longer-run decisions to stay with the Bank, it would be then possible to put them through a similar program. I do not see this as obviating the need for the Junior Professional Program but rather as being something that exists side by side. In the same way as the Projects Department cannot hope to recruit their professionals through such a program only, so I think the Economics Department cannot limit itself. However, of course, if there are good young economists who wish to come through the program, it would be a happy thing to have them do so.

February 12, 1965

Dear Brian:

As you probably have heard I am now wearing a World Bank hat. I have been here for only a few months and been extremely busy trying to think through what the Bank will be doing in the field of economic policy and economic research, and helping in the necessary re-organization of the Bank's staff. This phase is just about coming to an end, and I think it is fair to say that the World Bank is going to be doing some very interesting things in the field of development finance.

In addition to the traditional emphasis on projects and project financing the Bank will also be doing a great deal of evaluating countries' economic situations and policies, with particular reference to their implication for development. This will involve a considerable amount of interesting work on countries and on general policies.

The Economics Department of the Bank is being reorganized and greatly strengthened. Andrew Kamarck, who has been with the Bank for many years and whose last assignment was Economic Adviser in the Africa Department, has been made the Director of this Department. The Department will report to me. I am also having a very small group of people working directly with me. These will be people on a very senior level who will be coming for, say two or three years, from different parts of the World. I had wondered whether you might be interested in the possibility of joining the Bank's staff either on a permanent basis or on some term basis. I would be very happy if you would give this your more serious consideration and even happier if you were to indicate a positive interest.

I had expected to be in London this month but with all the work here decided to postpone coming. I am not sure when I will be there, so I have decided to write instead of waiting to see you personally. Hoping to be hearing from you soon.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. Brian Hopkins
H. M. Treasury
Great George Street
London, S.W.1
ENGLAND

Dear Mr. Kristensen:

Thank you very much for your letter of February 8, 1965 and for a copy of your latest report on "The Flow of Financial Resources to Less-Developed Countries, 1956-1963."

This is indeed a most comprehensive study and should be of great use to us and others interested in the problem of assistance to the developing countries. I have already made arrangements with our Paris Office to obtain several copies of the report for the Bank's use in Washington.

Sincerely yours,

George D. Woods

Mr. Thorkil Kristensen
Organization for Economic Cooperation
and Development
2 rue Andre-Pascal
Paris 16e
France

GD?ISF?pr1

Mr. George D. Woods

February 17, 1965

Irving S. Friedman

The U.S. Dollar and the Payments Crisis

I have tried to bring together in this memorandum some thoughts which I have had for some years on the U.S. balance of payments deficit, its implications for the use of the U.S. dollar as an international currency and how the deficit might be tackled without injuring the international position of the dollar. As you know, I do not think there is a more important or urgent problem in international economic relations today, including development finance.

Most--and probably all, of the thoughts expressed in this memorandum have been expressed in writing or orally, going back in some cases to the late 1950's. I had hoped to write a memorandum which would more adequately digest this past work and experience and thus give more substantiation for the conclusions and recommendations. However, I believe that the problems are too urgent to use more time for polishing further the following discussion.

2/17/65

Introduction

What is the problem

The continuation of a substantial over-all deficit in the United States balance of payments has led to widespread concern about the implications of this deficit and consequent governmental actions and proposals. One of the less fortunate results of this concern has been the emergence of doubts regarding the viability of the dollar as an international currency and the consequent willingness to give serious consideration to proposals which would interfere seriously with the export of private capital, either by direct government controls or advice or "whispering campaigns" and other restraints on private transactions. The thesis of this paper is that the continuous deficit does not reflect either a basic weakness in the U.S. economy or inflationary mismanagement of the U.S. economy by the fiscal or monetary authorities, and, therefore, essentially for these reasons, it does not reflect on the soundness of the U.S. dollar as an international reserve currency. Instead, the problem, in my view, is essentially a much more limited psychological one, arising primarily from concern regarding the compatibility of the present policy of the United States of buying and selling gold to foreign monetary authorities at a fixed price of \$35 per ounce and avoiding further large declines in U.S. gold holdings at a time when countries have begun to question the further accumulation of monetary reserves in the form of U.S. dollars, which they accumulated so avidly until the last few years.

A fundamental problem of maintaining confidence in the dollar is how to conduct U.S. financial relations with other countries in such a way as to avoid the imposition of serious governmental limitations on the outflow of private capital or otherwise place controls over other financial transactions with individuals or countries abroad. Such limitations once started, whatever their form, could progressively seriously damage the present uniquely high position of the U.S. dollar among the currencies of the world and disrupt the international financial mechanism which is providing the framework for unparalleled world prosperity. For those who contemplate

such controls over external transactions primarily because of their preoccupation with the gold loss problem--and not because they ideologically favor governmental controls over the market mechanism--the problem is how otherwise to avoid a drain on gold. This can be done in many different ways by more efficiently attacking the deficit problem without injuring the position of the dollar. To the extent that the deficit problem results from political and military needs, what is needed is a device or mechanism to deal with a special non-economic problem--not policies which may damage the functioning of the United States currency and the world economy, both of which are performing very well. Governmental interference with the freedom of external financial transactions, whether related to capital, tourism, trade, etc., are not likely to eliminate deficits except, perhaps, in the short run. Whatever restrictions can theoretically do, in practice what results is either a continuation or re-emergence of deficit or an extension of the controls over all external aspects of the economy. The latter results in the nightmarish problems of extensive exchange controls in peace time. The U.S. authorities might well read their files on their own past estimates of the effectiveness of exchange controls of other major countries, particularly those of the United Kingdom, and keep in mind that the essence of exchange controls is not what one calls them or the particular device one uses, but whether in fact it affects the freedom of individuals to make financial transactions with countries abroad.

The significance of U.S. balance of payments deficit

A balance of payments deficit by itself (for any country) does not signify any particular remedy. Its causes have to be carefully analysed before any conclusions are drawn as to its significance. Thus for some countries a deficit may reflect the fact that there is a continuing inflation which is discouraging exports, encouraging flight of capital, discouraging new capital from coming into the country and encouraging imports. For other countries it may reflect social and political

instability which is causing both citizens and foreigners to try to take their funds out of the country or to withhold payments to that country as long as possible. For a few countries it may reflect some extraordinary expenditures such as procurement of military supplies overseas or the results of military and political activities abroad. The implications of a balance of payments deficit are thus likely to be very different in different countries, and, accordingly, the appropriate remedies need to be different too.

In the United States the simple fact is that the balance of payments on commercial account, including the export of private capital, has been in surplus.^{1/} Between 1951 and the present, the value of American exports (including invisibles but omitting the dispatch of military equipment) and the value of American imports (including invisibles but omitting military expenditures abroad) rose together roughly in line. During the period 1951 to 1958, the U.S. surplus on current account, thus measured, averaged 25 per cent of the value of her exports of goods and services. During the period 1959-64, when the concern over the U.S. payments deficit has been the greatest, this ratio has still been approximately the same.^{2/} Thus it may be said that there has been a balanced growth of U.S. imports and exports, and if it were not for the political and military expenditures of the United States, the U.S. balance of payments would be in balance or in surplus. This signifies that the over-all deficit in the balance of payments does not reflect a weakness in the U.S. economy, either from the viewpoint of output, competitiveness or price developments, etc.. The U.S. commercial surplus could, of course, be made even bigger by the use of policy instruments such as a more restrictive monetary policy or the creation of large budgetary surpluses. But to say this is not to endorse the implication, too often drawn from the over-all deficit in balance of payments, that the U.S. dollar is in some way a weak currency or that the domestic economy is suffering from inflation.

^{1/} See Table 1.

^{2/} See Table 4.

The U.S. dollar is the most important currency for international trade and finance and it is the most important form in which countries and individuals store wealth for future use. History shows that the preference for holding a particular foreign currency for one reason or other indicates that this currency is held in particularly high repute compared to the other major currencies of the world. It was for this reason that countries for many years held sterling, and in more recent decades, have held U.S. dollars in ever increasing amounts. Fundamentally, the only developments that could weaken the U.S. dollar would be either an inflation in the United States that was more rapid than in other industrial countries, which would have the effect of diminishing both the purchasing power of the U.S. dollar relative to all other countries and the international competitiveness of its industries, or if something were done to limit the convertibility of the U.S. dollar into goods and services in the United States or elsewhere, or into other currencies. Not only is the U.S. dollar a strong and sound currency, it is the only major international currency in the world today with the exception of sterling. No arrangements, national or international, could keep the U.S. dollar in its present preeminent international position if it were not for the underlying strength and size of the U.S. economy. The U.S. economy is a modern miracle and only its continuing prosperity grants us the luxury of expressing grave doubts about the strength and future of its currency.

The U.S. dollar as the world's international currency

The emergence of the dollar as a major international currency has not been an accident. To make a currency acceptable and used as an international reserve currency, a combination of certain special factors must exist. First, the country whose currency it is, must be one that has a tradition of social and political stability and long-term prospects for the continuation of this tradition. Without this prospect there cannot be confidence that holding assets in that country will prove in the longer run to be a wise thing for foreigners, irrespective of whether they are officials, monetary authorities or private citizens. Closely related to

this there must be a tradition of the country's living up to its pledges and respecting the property rights of others. The continued use of an international currency reflects the existence of this confidence both by residents and non-residents of the country.

Secondly, it must be a country with a strong economic system behind it. With a strong economic system there is a real likelihood that serious inflation will be avoided and that the currency will be usable in a way satisfactory to the holder at least for the purchase of goods or supplies in that country. The U.S. is in a particularly advantageous position because of the great size as well as strength of its economy, with a tremendous range of goods and services to choose from and a promise of even more in the future. The U.S. economy is, moreover, much larger than any other economy. Indeed the U.S. economy is larger than all of the Western European industrialized economies put together. It not only has the financial responsibility of being the world's largest financial entity, it also has the resources to back this up. For example, even if the dollar liabilities of the United States were to increase by many times the present magnitudes, the U.S. would never have to fear that it could not convert these liabilities into exports because such exports would be at the expense of exports needed to finance necessary imports. The U.S. economy could generate many times its present export ~~levels~~^{surplus} without unduly straining the economy. After World War II, Britain's large sterling balances held by countries and individuals overseas were a major problem not because Britain had less gold but rather because the British economy was not big enough to pay off these balances with British goods and services (so-called "unrequited exports") and still be able to provide the additional exports needed to pay for vital imports.

Thirdly, to be a major international currency the country concerned must have fairly well established money and capital markets. To foreign holders of funds there must be some basis for feeling that, if desired, these monies can be invested in various types of short-term or medium-term or long-term securities;

that the capital can be repatriated and any servicing of interest etc., can take place without interference by the governmental authorities. This requires not only an efficient banking system, a good capital and money market, but also the additional factor of a tradition of non-interference by the government in the money and capital markets of the country. Once there is a feeling abroad that the government authorities are prepared to interfere in the money and capital markets to the extent of limiting the right of foreigners to withdraw capital or earnings, then that currency is a less attractive medium for savings by foreigners. When carried to a certain point of interference, as by the British and other Europeans in the post-World War II period, the currency is no longer held voluntarily by countries abroad, but rather becomes an asset of limited use which countries and individuals may continue to hold because there is no reasonable alternative. Experience indicates that ingenious ways are always found to get out of such currency into other assets which may be more attractive or desirable.

Experience also indicates, and this is well known in business and financial circles abroad, that governmental limitations on their own citizens' freedom to engage in international financial transactions historically have been followed by limitations on foreigners. This happens not only because it is politically difficult to discriminate against a country's own citizens but also because international economic and financial relations among countries and business firms are too interwoven to make controls over citizens at all workable--even in the short-run--without similar controls on foreigners. Serious limitations on foreigners' freedom to move their funds in and out of the financial markets of a country and to and from the country will reduce, if not end, the international usage of the currency even if such country has a pile of gold as big as Mount Everest. Large U.S. gold holdings may be very important for the international position of the dollar--and indeed of decisive importance--if these holdings are what convince the authorities in this country and elsewhere that the currency

is strong and, because of this conviction, the government does not impose in any form or manner restrictions on international financial transactions. But it is essential to recognize that these gold holdings are not the fundamental reason for the worldwide use of the U.S. dollar and that limitations on the freedom to use the U.S. dollar will undermine its position even if it results in ending any further reduction in the U.S. gold holdings.

This leads me to a major conclusion. The strength of the U.S. dollar is not primarily related to the level of U.S. gold holdings, but is basically determined by the political, economic and financial character, stability and strength of the United States. U.S. dollars are not held essentially for the purpose of converting them into gold. Rather, the reverse, gold is now held by monetary authorities and by others because it is convertible into dollars at a fixed price, and through the dollar into all other currencies. U.S. gold holdings may, of course, have great domestic significance. Declines in the holdings of gold may be used as a persuasive argument for the pursuit of anti-inflationary fiscal and monetary policies. This may be particularly important when an Administration is contemplating actions which are likely to result in, or continue, an existing inflation. It does, of course, assume the sensitivity of the Administration to changes in the U.S. gold reserve. But, if as a matter of fact the decline in gold holdings is not due to the existence or fear of inflation, or if a decline in the gold holdings is not regarded as a signal for changes in monetary and fiscal policies but rather for other types of policies, particularly governmental controls, then gold ceases to have this useful persuasive function. Instead, the desire to maintain a certain amount of gold may actually help induce the United States to adopt controls on foreign payments, or to restrict imports, or take other similar measures. If the maintenance of a certain minimum gold level is given a higher priority than avoidance of controls or the efficient functioning of the free enterprise system, the government may ignore the less obvious or less immediate damage done by controls, believing that it has now found a magical formula on how to pursue inflationary policies even without concern for the external balances of payments. If the government goes down this road for some

distance, no amount of gold held by the authorities will avoid a loss of confidence in the U.S. dollar. Even guarantees against devaluation may not in these circumstances repair the damage done to confidence. The adoption of controls on external financial transactions may increase the eagerness by countries outside of the United States to continue to hold gold and even to increase their holdings of gold. Countries might well speculate that the eventual elimination of these controls will be made possible only by an increase in the price of gold.

In the case of the United States, fortunately, the large loss of gold which has been experienced in recent years is not due to a fear of inflation in the United States. It is not due to a lack of confidence in the U.S. economy either by its own citizens or by citizens or governments abroad. The loss of gold reflects primarily the fact that as U.S. dollars are accumulated abroad as a consequence of its over-all balance of payments deficit, certain monetary authorities prefer to hold gold instead of U.S. dollars for at least part of their accumulations. The reason for this attitude is found in a few basic facts--not in mystique or superstitions. The first is the possibility that the official price of gold may be changed in the United States and therefore the holding of gold may lead to a windfall capital gain. Closely related is the conviction that even if the United States were to suspend its present gold sale policy, it would continue to buy gold at \$35, and thus maintain a floor price under gold, with the possibility that at some time sales would be resumed at a higher price for gold. Or, even if both purchases and sales were suspended, this would also be a prelude to an eventual increase in the price of gold. Secondly,--and a much less important reason so far--is the fear that the U.S. dollar may, in one way or another, or for one purpose or another, become less convertible into gold or into other currencies or other assets than it is at present, while gold is likely to continue to be useable for the purchase of any fully convertible currency. Thus gold becomes a hedge against a change in the value of the dollar in terms of gold or in the convertibility of the dollar. If monetary authorities abroad were convinced that under no circumstances would the price of gold be increased and that the dollar would remain convertible there would be no good economic reason for them to consider the conversion of dollars into gold. Indeed there would be a large cost in terms of income lost from foregoing the opportunities of investing such dollar holdings in income earnings assets.

In fact, the largest portion of dollars today are held by individuals and authorities abroad who have not the slightest interest in converting them into gold and see it only as pure foolishness which can be afforded by a few wealthy countries in Europe. For the most part these individuals and countries see dollars as means of either having the necessary cash foreign exchange to help finance fluctuations in trade or as a means of obtaining income-earning assets primarily in the United States, and profiting from these income earnings assets. This is contrary to the notion perpetrated by balance of payments technicians that holding by countries of reserves in the U.S. is a form of borrowing by the United States and, conversely, loan extensions by these countries. They are no more "loans" than the deposit made in a commercial bank is a "loan" by the depositor in the bank. They are held because the countries holding them want to, and can at any time be withdrawn either by purchase of goods and services in the U.S. or elsewhere or by conversion into other currencies or repatriation into the currency of the original holder.

The countries have, of course, taken at their word the statements by every generation of the U.S. financial authorities since the end of World War II that the fixed price of gold will not be changed and that the United States is devoted to the maintenance of a currency free from all governmental interference on its usage or convertibility. All the countries which have speculated by holding gold in the post-war period have been foregone substantial foreign exchange earnings. It would take an extraordinarily large increase in the price of gold to make up for the income lost by these countries over the past 15-16 years. Their gold purchases from the United States resulted, however, from traditional practices rather than a widespread lack of confidence in the U.S. dollar as the world's leading international currency. Certain countries have been arguing for a change in the price of gold and certain economists have supported these arguments. But this has not changed events. Similarly, if the United States does not change the official price for gold, those who hold gold will again be the losers.

Another less publicized reason for holding gold is that governmental authorities feel that this will keep them from being criticized by those who might argue that the holding of dollars is risky. However, in most countries of the world the authorities have usually come to the conclusion that they would prefer to hold the income-earning assets rather than non-income earning gold.

It is essential to recognize that out of the tens of billions of dollars held abroad privately and by monetary authorities only a very small fraction of such dollars can be regarded as being held involuntarily in any sense. I believe that very few monetary authorities would choose to convert their dollar holdings into gold even if told that the United States is entirely unconcerned about further drops in its gold holdings. If, in addition, this measure was coupled with action designed to make clear that not only would the United States not change the price of gold nor in any way interfered with the full international usage of its currency but also take appropriate measures to ^{reduce} ~~correct~~ its balance of payments deficit, we would soon begin to see a decrease in the eagerness to acquire and hold gold. If, however, confidence abroad in the dollar is shaken by repeated statements and actions reflecting a growing U.S. conviction that some forms of important governmental interferences with the international use of the dollar are inevitable, many more countries may become convinced that conversion of their dollar holdings into gold is the only safe course despite repeated assurance that the dollar will remain convertible into gold at the present fixed price. If this happens, the present U.S. gold supply would certainly be inadequate--but such would still be the case, even if it were much greater.

How to maintain confidence in the U.S. dollar

As a result of the events of the last few years the conviction has come about that only the elimination of the U.S. balance of payments deficit can maintain--or, for some, restore confidence in the dollar. It is difficult to say how widespread or deeply entrenched this viewpoint is or to what extent it cannot be dispelled by

future U.S. Government policy. At some point, however, it must be dispelled. It is not sensible for the U.S. to regard an over-all deficit as undesirable in itself. As long as we have new countries, as well as old countries, who feel that their reserves are inadequate, we may find a constant tendency for countries to keep part of their foreign exchange income whether it results from earnings capital imports, or foreign assistance, etc., in the form of monetary reserves held mostly in U.S. dollars against future contingencies. This really is the counterpart of countries choosing to make short-term investments in the United States as against using foreign exchange earnings for current purposes. This may well mean frequent repetitions, if not perpetuation of the so-called deficit in the U.S. balance of payments.

It is, however, often argued that the continuation of a balance of payments deficit, particularly of the magnitudes recently experienced, undermines confidence in the dollar because it increases the holdings of dollars abroad and brings into question the ability of the United States to convert officially-held dollar balances into gold. This viewpoint has been so widely publicized as to be accepted by many as a truism. There is, however, no way of knowing what is the "limit" of the amount of dollar liabilities which can be built up against any given level of gold. It depends primarily on the eagerness to hold dollars as monetary reserves. History points to examples of much higher ratios than prevail at present but conditions were different, e.g., there was the automatic discipline of the gold standard and the taken-for-granted confidence in sterling. However, the international monetary system today is designed to economize on the use of gold and to free countries of the need to accumulate or hold gold nationally. The present system within the framework of international cooperation, allows the banking system of this country to play a role whereby it creates liquidity, in the sense of a store of value against future contingencies, in a form which is as good as gold, and yet independent of gold, backed as it is by the basic strength and international confidence in the U.S. economy and its banking system. As long as the U.S. dollar

is tied to hold by the commitment to freely buy and sell at a fixed price, explained earlier, this too means that there is no fundamental economic or financial reason to prefer gold to U.S. dollars since an increase in the price of gold is ruled out and the U.S. dollar remains convertible. What is clear is that from an economic viewpoint, principally in relation to the size and competitiveness of the U.S. economy, U.S. dollar liabilities are small not large and, as the U.S. economy grows, the ability to provide underpinning for such liabilities grows accordingly. Moreover, total U.S. assets abroad have increased by many more billions than U.S. liabilities.

At present it may be assumed that the great bulk of dollars held abroad are held voluntarily and this would not change even if such dollar balances were to become much larger. This situation could change, in small part, because individual nations increase the proportion of their reserves held in gold; in large part, because the U.S. reaction to further gold losses is action which to the experienced holders of dollars means that the eventual outcome might well be the devaluation of the dollar.

It may be, however, that the situation is already changing. i.e., that confidence in the U.S. dollar is being weakened, despite the lack of objective, fundamental, economic reasons. This may be primarily because of the conviction that the continuation of the U.S. balance of payments deficits in magnitudes of a few billion dollars per year will lead enough countries to convert dollars into gold and this could eventually result in an increase in the price of gold. It is this growing concern that may explain the prevailing sense of "crisis". It may well be argued, that the fundamental economic strength of the U.S. dollar is now being overwhelmed by "psychological" factors, i.e. weakening confidence. If this is so-- and indeed it may be-- even then the answer should not be governmental interferences on freedom of international financial transactions. For reasons already given, this will not restore confidence but may only weaken it, even, if for a moment, the sense of crisis is relieved. Other ways of reducing or closing the deficit until

perspective can be restored may be urgently needed.

The alternatives, which do not involve one form or another of governmental restrictions on external transactions, are clear: either important changes in domestic policies or, as explained below in the recommendations, arranging U.S. financial relations with respect to military expenditures overseas and, possibly foreign aid, as to get them out of the balance of payments deficit. My personal recommendation is the latter. But if neither is feasible, the authorities may be forced to re-examine the present gold policy. This could involve a suspension or end of the policy of tying the dollar to gold. Another possibility is for other countries to tie their currencies to gold, as does the United States. Some may argue that the present situation is too critical or urgent to permit consideration of these various alternatives. My own judgment is that there is a serious problem but that there is enough time to take measures which would reduce the deficit sufficiently without impairing the U.S. dollar as an international currency and thus without undermining the framework of our prospering world economy. Among such available measures is the use of the IMF along the lines recommended below. Another way to help in the immediate "psychological" crisis is to end the gold requirements for backing for currency and deposits. The proposed bill is a good first step.

It may be argued that one major alternative not yet mentioned is another kind of reserve unit--a partial or complete substitute for the U.S. dollar. In judging the feasibility of this it is not enough to see whether it is "technically" or theoretically possible. It must also be considered in the light of how international trade and capital movements actually are financed, the impact on the private international credit mechanism which finances nearly all of international trade, the implication for the less developed countries, the practical steps necessary to bring a new unit into existence including the transitional time needed, the adjustment of national monetary and banking systems, the future role of

national monetary policy, the impact on other domestic policies e.g., income and employment, the effect on international monetary cooperation, etc. Much of the discussion on how a new reserve unit would work is necessarily guesswork and theorizing. What is clear is that if there is a widespread lack of confidence in the U.S. dollar in the foreseeable future the monetary system will be severely shaken, if not utterly collapsed. The present mechanism operates as part of the day-to-day business activities of a healthy economy, particularly of the U.S. banking system. As long as the U.S. dollar is an international reserve currency there need be no fear of a shortage of "liquidity" by the United States or, by the world. The U.S. has amply demonstrated that it recognizes its responsibilities as the key currency to provide foreign exchange resources to those in need. The ability to do so with ease is intimately related to the simple fact that the U.S. dollar is foreign exchange as well as being a national currency. Any substitute system of creating international reserve units is bound to be at least complicated and time consuming, if not hard to keep in line with the commercial and other needs of the world economy. No system has yet been suggested which is a practical substitute for the U.S. dollar at least for some years ahead. On the other hand, if there is confidence in the U.S. dollar the present international mechanism, in my view, is viable and that there is ample time for careful and deliberate consideration of the need for possible reforms. The principal need is for measures which will strengthen and maintain this confidence.

To recapitulate, I have argued that (i) the present deficit in the U.S. balance of payments does not reflect on the soundness of the dollar; (ii) the soundness or strength of the dollar as an international currency is primarily based on the strength and character of the U.S. and not on its gold holdings; (iii) a balance in the international accounts of the United States is not essential to the soundness of the dollar or its acceptability as an international reserve currency but the reduction of the present U.S. deficit may nevertheless be important in

order to meet the present unfortunate "psychological" fear about the dollar; (iv) for the continued position of the dollar as an international currency, it is essential that there be no restrictions, however disguised, on the use of dollars to finance international transactions and that any possibility of an increase in the price of gold be ruled out under any circumstances; (v) the present international financial system, based primarily on the international acceptability of the U.S. dollar coupled with the operations of the private U.S. credit mechanism, is viable and there is no practical substitute in sight.

Recommendations

My own recommendations for the U.S. balance of payments policy are as follows:

1. Reiterate the United States confidence in the present international financial system and its ability to cope with any foreseeable problem, including that of the U.S. balance of payments. This would include reiteration of the principle of stable exchange rates changed only with international agreement, and of keeping the U.S. dollar as the key international reserve and trading currency. Invite other gold holding countries to tie their currencies to gold as does the United States.
2. Make clear that under no circumstances will the United States change the price of gold and that all who speculate to the contrary do so at their own risk -- whether private individuals, governments, or monetary authorities.
3. Announce that the United States will end the policy of only small usage of the Fund, and that it will, if needed, make full use (up to about \$5 billion) of its access to the Fund's resources within the framework of the Fund's policies. (The financing is available although it may involve sales of gold by the Fund. The Fund's gold holdings exist for this very kind of purpose.)

The United States would thereby submit itself to serious international scrutiny and review of its policies which would accompany a drawing or stand-by in the billions of dollars. This would be an answer to the French insistence that there is not sufficient "multilateral surveillance" of the U.S. balance of payments.

4. Make clear that the United States does not wish any country abroad to hold dollars instead of gold except on a purely voluntary basis. This means bringing to an end the present anomolous situation wherein it is announced U.S. policy that all friendly countries have the right to freely purchase and sell gold at \$35 an ounce, but governments abroad keep on repeating that they believe the United States does not wish them to exercise this right. The United States public would then be informed that there might well be an important further decline in the U.S. gold holdings. It is not expected that this decline would be very large as long as there is confidence in the U.S. economy and it is clear to all that no change in the price of gold will take place at least as long as the present Administration is in office. In the meantime the U.S. should take steps to end the present gold backing requirements with respect to currency and deposits. The present Bill is a good first step.
5. Take energetic steps to educate the public on the improved international capital position of the United States and to eliminate some of the prevalent misconceptions about the balance of payments and the position of the U.S. dollar. It could be explained that the strength of the dollar is based on its full convertibility into other currencies for any purpose and on the strength of the U.S. economy. The United States would indicate that it is satisfied with its ability to compete abroad successfully and it does not regard the increase in the so-called United States dollar deficit as a reflection on either the soundness of the currency, the strength of

the economy, or the appropriateness of present governmental and monetary policies. In other words, the U.S. balance of payments deficit reflects politico-military-international relations and problems, plus the uniquely highly respected position of the U.S. dollar which make countries and private individuals wish to accumulate dollars to meet future contingencies.

6. Make clear that the United States does not intend to take any measures which would disrupt the international economic system through governmental restraints on external financial transactions.
7. Announce that with respect to the balance of payments effects of its political and military activities abroad, the U.S. intends to have discussions with the countries concerned to ensure that needed international political and military activities are not impeded by balance of payments considerations. The U.S. should announce its belief that the successful wartime experience with Lend-lease and reverse Lend-lease is applicable to present-day problems. The United States could indicate that if no solution were found within this framework, it would have to find some other financial arrangements that will eliminate the responsibility for converting into gold at the \$35 fixed price these military expenditure dollars.
8. Announce that the U.S. Government intends to pursue policies designed to continue growth, diminish unemployment, but not at a magnitude or rate that would revive inflation.
9. Reconsider measures already taken to deal with the balance of payments problem to ensure that they are not causing more harm than good by either weakening confidence in the currency or interfering with the effective functioning of the international economy. In the meantime, the U.S. should avoid any undesirable measures which are taken because of an unwarranted lack of confidence in the underlying strength and attractiveness of the U.S. dollar.

It would be possible to devise a system like lend-lease and reverse lend-lease whereby dollar balances held by industrialized countries resulting from military and foreign aid expenditure became special forms of assets, while the dollar balances which resulted from commercial transactions continued to be accumulated, held voluntarily, and convertible at will into gold at a fixed price by the United States. If this is done, the large U.S. deficit would greatly diminish, if not disappear. It would ensure in the monetary and financial field that inequalities in burden sharing in the military and political fields do not result in a great strain and threat to the monetary system and do not exacerbate all international relations. Even if this were not successfully negotiated it would at least become clear that the monetary system is being strained by the special political and military needs of the current world situation and by the discrepancies in the willingness of countries to undertake responsibilities in the military and political field. It would thus help restore confidence in the U.S. dollar and put the balance of payments deficit in proper perspective.

If countries abroad are not prepared to do any of the above, the United States might possibly re-assess its present gold policies. This would raise the possibility of the abolition of the floor under the price of gold. If well handled, such talk might well induce a flight from gold instead of the past situation of a flight into gold. A flight from gold would strengthen all currencies particularly the U.S. dollar and sterling. It would strengthen the U.S. hand in any negotiation, but the wisdom of doing this would depend upon prevailing attitudes at the time.

In these discussions the United States could point out that the relatively small amounts involved in military and related expenditures were threatening a re-emergence of economic nationalism with grave consequences for monetary, political and military relations among the allies of the Western world. If this

happened, the United States was the one country that could hope to maintain reasonable prosperity in a "dog-eat-dog" world. If countries outside of the United States are concerned about excessive U.S. private investments in their industries, this should be tackled as a political question, capable of discussion and compromise--not as a balance of payments problem. Even if the United States had no balance of payments deficit this investment problem would exist.

This memorandum has not discussed the possible changes in domestic policies which would reduce greatly or eliminate the balance of payments deficit. Of course, there is always the possibility of improving the techniques used in managing the balance of payments and such techniques should be subject to constant review. Too often the failure to satisfy the public with respect to queries raised about balance of payments management leads to feelings that something fairly fundamental may be wrong. For example, it may well be desirable to inform the public as to the considered authoritative views on the implications for the domestic economy and for the balance of payments of the kinds of interest rate changes being advocated by some Europeans. In any case, I feel that the fundamental balance of payments position of the United States is such as to not require any major change in the implementation of the Administration's stated domestic objectives.

2/15/65

THE U.S. DOLLAR AND THE PAYMENTS CRISIS

Introduction

What is the problem

The continuation of a substantial over-all deficit in the United States balance of payments has led to widespread concern about the implications of this deficit and consequent governmental actions and proposals. One of the less fortunate results of this concern has been the emergence of doubts regarding the viability of the dollar as an international currency and the willingness to give serious consideration to proposals which would interfere seriously with the export of private capital, either by direct government controls or advice or "whispering campaigns" and other restraints on private transactions. The thesis of this paper is that the continuous deficit does not reflect either a basic weakness in the U.S. economy or inflationary management of the U.S. economy by the fiscal or monetary authorities, and, therefore, essentially for these reasons, it does not reflect on the soundness of the U.S. dollar as an international reserve currency. Instead, the problem, in my view, is a much more limited and technical one, arising primarily from the compatibility of the present policy of the United States to buy and sell gold to friendly monetary authorities at a fixed price of \$35 per ounce with the overwhelming preoccupation of avoiding further large declines in U.S. gold holdings. Conversely, the problem arises when countries begin to question the further accumulation of monetary reserves in the form of U.S. dollars, which they accumulated so avidly until the last few years.

The fundamental problem for the purposes of maintaining confidence in the dollar is not how to end the balance of payments deficit, but how to conduct U.S. financial relations with other countries in such a way as to avoid the imposition of serious governmental limitations on the outflow of private capital or otherwise place controls over other financial transactions with individuals or countries abroad. Such limitations once started, whatever their form, will bring to an end the present uniquely high position of the U.S. dollar among the currencies of the world and disrupt the international financial mechanism which is providing the framework for unparalleled

world prosperity. For those who contemplate such controls over external transactions only because of their preoccupation with the gold loss problem--and not because they favor governmental controls ideologically over the market mechanism--the problem is how to avoid a drain on gold. This can be done in many different ways without injuring the position of the dollar and more efficiently attacking the deficit problem. To the extent that the deficit problem results from political and military needs, what is needed is a device or mechanism to deal with a special noneconomic problem--not policies which may damage the functioning of the United States currency and the world economy, both of which are performing very well. Governmental interferences with the freedom of external financial transactions, whether related to capital, tourism, trade, etc., do not solve deficits. Whatever restrictions are theoretically possible, in practice, what is done and what happens is either an increase in the deficit or an extension of the controls over all external aspects of the economy. The latter results in the nightmarish problems of extensive exchange controls in peace time. The U.S. authorities might well read their files on their own past estimates of the effectiveness of exchange controls of other major countries, particularly those of the United Kingdom, and keep in mind that the essence of exchange controls is not what one calls them or the particular device one uses, but whether in fact it affects the freedom to make financial transactions with countries abroad.

The significance of U.S. balance of payments deficit

A balance of payments deficit by itself (for any country) does not signify any particular remedy. Its causes have to be carefully analysed before any conclusions are drawn as to its significance. Thus for some countries the deficit may reflect the fact that there is a continuing inflation which is discouraging exports, encouraging flight of capital, discouraging new capital from coming into the country and encouraging imports. For other countries it may reflect social and political instability which is causing both citizens and people from abroad to try to take their funds out of the country or to withhold payments to that country as long as possible. For a few countries it may reflect some extraordinary expenditures such

as procurement of military supplies overseas or the results of military and political activities abroad. The implications of a balance of payments deficit are thus likely to be very different in different countries and, accordingly, the appropriate remedies need to be different too.

In the United States the simple fact is that the balance of payments on commercial account, including the export of private capital, has been in approximate over-all balance. Between 1951 and the present, the value of American exports (including invisibles but omitting the dispatch of military equipment) and the value of American imports (including invisibles but omitting military expenditures abroad) rose together roughly in line. During the period 1951 to 1958, the U.S. surplus on current account, thus measured, varied between 22 to 25 per cent of the value of her exports of goods and services. During the period 1959-64, when the concern over the U.S. payments deficit has been the greatest, these ratios are still approximately the same. Thus it may be said that there has been a balanced growth of U.S. imports and exports, and if it were not for the political and military needs of the United States, the U.S. balance of payments would probably be in surplus. This signifies that the over-all deficit in the balance of payments does not reflect a weakness in the U.S. economy, either from the viewpoint of output or competitiveness or price developments, etc. The U.S. commercial surplus could, of course, be made even bigger by the use of policy instruments such as a more restrictive monetary policy or the creation of large budgetary surpluses. But to say this is not to endorse the implication, too often drawn from the over-all deficit in balance of payments, that the U.S. dollar is in some way a weak currency or that the domestic economy is suffering from inflation.

The U.S. dollar is the most important currency for international trade and finance and it is the most important form in which countries and individuals store wealth for future use. History shows that the preference for holding a particular foreign currency for one reason or other indicates that this currency is held in particularly high repute compared to all the other major currencies of the world. It was for this reason that countries for many years held sterling, and in more

recent decades, have held U.S. dollars in ever increasing amounts. Fundamentally the only developments that could weaken the U.S. dollar would be either an inflation in the United States that was more rapid than in other industrial countries, which would have the effect of diminishing both the purchasing power of the U.S. dollar relative to all other countries and the international competitiveness of its industries, or if something were done to limit the convertibility of the U.S. dollar into goods and services in the United States or elsewhere, or into other currencies for all purposes. Not only is the U.S. dollar a strong and sound currency, it is the only major international currency in the world today with the exception of sterling. No arrangements, national or international, could keep the U.S. dollar in its present preeminent international position, if it were not for the underlying strength and size of the U.S. economy. The U.S. economy is a modern miracle and only its continuing prosperity enables us to have the luxury of expressing grave doubts about the strength of its currency and its future.

The U.S. dollar as the world's international currency

The emergence of the dollar as a major international currency has not been an accident. To make a currency acceptable and used as an international reserve currency, a combination of certain special factors must exist. First, the country whose currency it is, must be one that has a tradition of social and political stability, and long-term prospects for the continuation of this tradition. Without this prospect there cannot be confidence that holding assets in that country will prove in the longer run to be a wise thing for foreigners, irrespective of whether they are officials, monetary authorities or private citizens. Closely related to this there must be a tradition of living up to its pledges and respecting the property rights of others. The continued use of an international currency reflects the existence of this confidence both by citizens or residents of the country and by citizens and residents of other countries.

Secondly, it must be a country with a strong economic system behind it. With a strong economic system there is a real likelihood that serious inflation will be avoided and that holdings in that currency will be usable in a way satisfactory to the holder at least for the purchase of goods or supplies in that country. The U.S. is in a particularly advantageous position because of the great size as well as strength of its economy, with a tremendous range of goods and services to choose from and a promise of even more in the future. The U.S. economy is, moreover, much larger than any other economy. Indeed the U.S. economy is larger than all of the Western European industrialized economies put together. It not only has the financial responsibilities of being the world's largest financial entity, it also has the resources to back up these responsibilities. For example, even if the dollar liabilities of the United States were to increase by many times the present magnitudes, the U.S. would never have to fear that it could not convert these liabilities into exports because such exports would be at the expense of exports needed to earn new foreign exchange. The U.S. economy could generate many times its present export levels without straining the economy as long as it is not assumed that it had drastically altered its import policy. After World War II, Britain's large sterling balances held by countries and individuals overseas were a major problem not because Britain had less gold but rather because the British economy was not big enough to pay off these balances with British goods and services and still be able to provide enough additional exports needed to obtain foreign exchange to pay for needed imports.

Thirdly, to be a major international currency the country concerned must have fairly well established money and capital markets. To foreign holders of funds there must be some basis for feeling that, if desired, these monies could be invested in various types of short-term or medium-term or long-term securities; that the capital could be repatriated and any servicing of interest etc., could take place without interference by the governmental authorities. This requires not only a good capital and money market, but also the additional factor of a tradition of

non-interference by the government in the money and capital markets of a country. Once there is the feeling abroad that the government authorities are prepared to interfere in the money and capital markets to the extent of limiting the right of foreigners to withdraw capital or earnings, then that currency is a less attractive medium for savings by foreigners. When carried to a certain point of interference, as by the British and other Europeans in the 1950's, the currency is no longer held voluntarily by countries abroad, but rather becomes a captive asset which countries and individuals may continue to hold because there is no reasonable alternative. Experience indicates that ingenious ways are always found to get out of such currency into other assets which are more attractive or desirable.

Experience also indicates, and this is well known in business and financial circles abroad, that governmental limitations on their own citizens' freedom to engage in international financial transactions has been followed by limitations on foreigners. This happens not only because it is politically difficult to discriminate against a country's own citizens but also because international economic and financial relations among countries and business firms are too interwoven and complicated to make controls or other forms of restraints over citizens at all workable--even in the short-run without similar controls on foreigners. Such limitations on foreigners' freedom to move their funds in and out of the financial markets of a country and to send from the country will reduce, if not end, the international usage of the currency even if it has a pile of gold as big as Mount Everest. The existence of large U.S. gold holdings may be very important--and indeed are of decisive importance--if these holdings are what convince the authorities in this country and elsewhere that the currency is strong and that these gold holdings are the explanation for the world-wide confidence in the currency, and because of these convictions the government does not impose in any form or manner restrictions on international financial transactions. But it is essential to recognize that these are not the real reasons for the world-wide use of the U.S. dollar and that limitations on the freedom to use the U.S. dollar will undermine its position even if it results in ending any further reduction in the U.S. gold holdings.

This leads me to a major conclusion. The strength of the U.S. dollar is not primarily related to the level of U.S. gold holdings, but is basically determined by the political and economic character, stability and strength of the United States. U.S. dollars are essentially not held for the purpose of converting them into gold. Rather, the reverse, gold is now held by monetary authorities and by others because it is convertible into dollars at a fixed price, and through the dollar into all other currencies. U.S. gold holdings may have real domestic significance. Declines in the holdings of gold may be used as a persuasive argument for the pursuit of anti-inflationary fiscal and monetary policies. This may be particularly important when the Administration is contemplating actions which are likely to result in or continue an existing inflation. It does, of course, assume the sensitivity of the Administration to changes in the U.S. gold reserve. But, if as a matter of fact the decline in gold holdings is not due to the existence or fear of inflation, or if a decline in the gold holdings is not regarded as a signal for changes in monetary and fiscal policies but rather for other types of policies, particularly governmental controls, then gold ceases to have this useful persuasive function. Instead gold or the desire to maintain a certain amount of gold may actually help induce the United States to adopt controls or to restrict imports. If the maintenance of a certain minimum gold level is given a higher priority than avoidance of controls or the efficient functioning of the free enterprise system, the government may ignore the less obvious or less immediate damage done by controls, believing that it has now found a magical formula on how to pursue even inflationary policies without concern for the external balances of payments. Once started on this road, no amount of gold held by the authorities will avoid a loss of confidence in the U.S. dollar. Even guarantees against depreciation and devaluation do not in these circumstances promote confidence because of doubts as to the ability of a country experiencing inflation to manage its affairs and to fulfill commitments in the increasingly uncertain future.

The adoption of controls on external financial transactions may increase the eagerness by countries outside of the United States to hold and increase their gold holding. Countries might well speculate that the elimination of these controls will necessitate an increase in the price of gold.

In the case of the United States, fortunately, the large loss of gold which has been experienced in recent years is not due to a fear of inflation in the United States. It is not due to a lack of confidence in the U.S. economy either by its own citizens or by citizens or governments abroad. The loss of gold reflects only the fact that as U.S. dollars are accumulated abroad as a consequence of its over-all balance of payments deficit, certain monetary authorities prefer to hold gold instead of U.S. dollars for at least part of their accumulations. The reason for this attitude is found in a few basic facts--not in mystique or superstitions. The first is the possibility that the official price of gold may be changed in the United States and therefore the holding of gold may lead to a windfall capital gain. Closely related is the conviction that even if the United States were to suspend its present gold policy, it would continue to buy gold at \$35, and thus maintain a floor price under gold, with the possibility that at some time sales would be resumed at a higher price for gold, or even if both purchases and sales were suspended, this would also be aptitude to an eventual increase in the price of gold. Secondly,--and a much less important second reason so far--is the fear that the U.S. dollar may, in one way or another, or for one purpose or another, become less convertible into gold or into other currencies or other assets than it is at present, while gold is likely to continue to be usable for the purchase of any convertible currency. Thus gold becomes a hedge against a change in the value of the dollar in terms of gold or the convertibility of the dollar. If monetary authorities abroad were convinced that under no circumstances would the price of gold be increased, and that the dollar would remain convertible there would be no good economic reason for them to consider the conversion of dollars into gold. Indeed there would be a large cost in terms of income lost from foregoing the opportunities of investing such dollar holdings in income earnings assets.

In fact the largest portion of dollars today are held by individuals and authorities abroad who have not the slightest interest in converting them into gold, and see it only as pure foolishness which can be afforded by a few wealthy countries in Europe. For the most part these individuals and countries see dollars as means of either having the necessary cash foreign exchange to help finance fluctuations in trade or as a means of obtaining income-earning assets primarily in the United States, and profiting from these income earnings assets. The countries have, of course, taken at their word the statements by every generation of U.S. financial authorities since the end of World War II that the fixed price of gold will not be changed and that the United States is devoted to the maintenance of a currency free from all governmental interference on its usage or convertibility. All the countries which have speculated by holding gold in the post-war period have been great losers of foreign exchange earnings. It would take an extraordinarily large increase in the price of gold to make up for the income lost by these countries over the past 15-18 years. Their gold purchases from the United States resulted from traditional practices rather than a widespread lack of confidence in the U.S. dollar as the world's leading international currency. Certain countries have been arguing for a change in the price of gold, and certain economists have supported these arguments. But this has not changed events. Similarly, if the United States does not change the official price for gold, those who hold gold will again be the losers.

Another less publicized reason for holding gold is that governmental authorities feel that this will keep them from being criticized by those who might argue that the holding of dollars is risky. However, in most countries of the world after the monetary authorities have considered this question, they have usually come to the conclusion that they would prefer to hold the income-earning assets rather than non-income earning gold.

It is essential to recognize that out of the tens of billions of dollars held abroad privately and by monetary authorities only a very small fraction of such dollars can be regarded as being held involuntarily in any sense. I believe that very few monetary authorities would choose to convert their dollar holdings into gold even if told that the United States is entirely unconcerned about further gold declines. If, in addition, this measure was coupled with action designed to make clear that not only would the United States not change the price of gold nor in any way interfere with the full international usage of its currency but also was taking these measures to manage the balance of payments, we would soon begin to see a decrease in the eagerness to acquire and hold gold. If, however, confidence abroad in the dollar is shaken by repeated statements and action reflecting a growing U.S. conviction that some forms of governmental interference with the international use of the dollar are inevitable, many more countries may become convinced that conversion of their dollar holdings into gold is the safe course despite repeated assurances that the dollar will remain convertible into gold at the present fixed price. If this happens, the U.S. gold supply would certainly be most inadequate--but such would still be the case, even if it were much greater.

How to maintain confidence in the U.S. dollar

To come back to a main theme of this paper, as a result of the events of the last few years the conviction has come about that only the elimination of the U.S. balance of payments deficit can maintain--or, for some, restore confidence in the dollar. It is difficult to say how widespread or deeply entrenched this viewpoint is or to what extent it cannot be dispelled by future U.S. Government policy. At some point, however, it must be dispelled. It is not sensible for the U.S. to regard an over-all deficit as undesirable in itself. As long as we have new countries, as well as old countries, who feel that their reserves are inadequate, we may find a constant tendency for countries to keep part of their foreign exchange income whether it results from earnings or capital imports, foreign assistance, etc., in the form of monetary reserves mostly in U.S. dollars against future contingencies.

It really is the counterpart of countries choosing to make short-term investments in the United States as against using such currencies or monies for other current purposes. This may well mean frequent repetitions, if not perpetuation of the so-called deficit in the U.S. balance of payments. It is, however, often argued that the continuation of a balance of payments deficit particularly of the magnitudes recently experienced, undermines confidence in the dollar because it increases the holdings of dollars abroad and brings into question the ability of the United States to convert officially-held dollar balances into gold. This viewpoint has been so widely publicized as to be accepted by many as a truism. There is, however, no way of knowing what is the "limit" of the amount of dollar liabilities which can be built up against any given level of gold. History points to situations of much higher ratios than prevail at present but conditions were different, e.g., the automatic disciplines of the gold standard and the taken-for-granted confidence in sterling. However, the international monetary system today is designed to economize on the use of gold and to free countries of the need to accumulate or hold gold nationally. Only the U.S. dollar is tied to gold by the commitment to freely buy and sell at a fixed price. As explained earlier, this means that there is no fundamental economic or financial reason to prefer gold to U.S. dollars as long as an increase in the price of gold is ruled out and as long as the U.S. dollar remains convertible in the sense already described. What is clear is that from an economic viewpoint, principally the relation with the size and competitiveness of the U.S. economy, U.S. dollar liabilities are small not large; and, as the U.S. economy grows, the ability to provide underpinning for such liabilities grows accordingly. Moreover, total U.S. assets abroad have increased by many billions more than U.S. liabilities.

At present it may be assumed that the great bulk of dollars held abroad are held voluntarily, and this would not change even if such dollar balances were to become much larger. This situation could change, in small part, because individual nations increase the proportion of their reserves held in gold; in large part,

because the U.S. reaction to further gold losses are actions which to the experienced holders of dollars means that the eventual outcome might well be the devaluation of the dollar.

It may be, however, that the situation is already changing, i.e., that confidence in the U.S. dollar is being weakened, despite the lack of objective economic reasons. This may be primarily because of the conviction that the continuation of the U.S. balance of payments deficits in magnitudes of a few billion dollars per year will lead enough countries to convert dollars into gold which would result either in a suspension of the U.S. gold policy or an increase in the price of gold. The first possibility is seen as a prelude to the second, in any case. It is this growing concern that may explain the prevailing sense of "crisis". It may well be agreed that the fundamental economic strength of the U.S. dollar is now being overwhelmed by "psychological" factors. If this is so--and indeed it may be--then the answer cannot be governmental interferences on freedom of international financial transactions. For reasons already given, this will not restore confidence but may only aggravate it, even, if for a moment, the sense of crisis is relieved. Other ways of reducing or closing the deficit until sanity can be restored may be urgently needed.

The alternatives, which do not involve one form or another of governmental restrictions on external transactions, are clear. Important changes in domestic policies or, as explained below in the recommendations, arranging U.S. financial relations with respect to military expenditures overseas and, possibly foreign aid, as to get them out of the balance of payments deficit. If these alternatives are not feasible, the authorities may be forced to re-examine the present gold policy. This could involve an increase in the price of gold immediately or a suspension or end of the policy of tying the dollar to gold. Another possibility is for other countries to tie their currencies to gold, as does the United States. Some may argue that the present situation is too critical or urgent to take the time to consider these various alternatives. My own judgment is that there is a serious

problem, but that there is enough time to take measures which would reduce the deficit sufficiently without impairing the U.S. dollar as an international currency and thus without undermining the framework of our prospering world economy. Among such available measures is the use of the IMF along the lines recommended below. Another way to help in the immediate "psychological" crisis is to end the gold requirements with respect to backing for currency and deposits. The proposed bill is a good first step.

It may be argued that one major alternative not yet mentioned is another kind of reserve unit--a partial or complete substitute for the U.S. dollar. In judging the feasibility of this it is not enough to see whether it is "technically" or theoretically possible. It must also be considered in the light of how international trade and capital movements actually are financed, the impact on the private international credit mechanism which finances nearly all of international trade, the implication for the less developed countries, the practical steps necessary to bring a new unit into existence including the transaction time needed, the adjustment of national monetary and banking systems, the future role of national monetary policy, the impact on other domestic policies, e.g., income and employment, the effect on international monetary cooperation, etc. Much of this is necessarily guesswork and theorizing. What is clear is that if there is a lack of confidence in the U.S. dollar in the foreseeable future the monetary system will be severely shaken, if not utterly collapsed. The present mechanism operates as part of the day-to-day business activities of a healthy economy. Any substitute system of creating international reserve units is bound to be at least complicated and time consuming, if not hard to keep in line with the commercial and other needs of the world economy. No system has yet been suggested which is a practical substitute for the U.S. dollar at least for some years ahead. On the other hand, if there is confidence in the U.S. dollar the present international mechanism, in my view, is viable and that there is ample time for careful and deliberate consideration of the need for possible reforms.

To recapitulate, I have argued that (i) the present deficit in the U.S. balance of payments does not reflect on the soundness of the dollar; (ii) the soundness or strength of the dollar as an international currency is primarily based on the strength of the U.S. economy and not on its gold holdings; (iii) a balance in the international accounts of the United States is not essential to the soundness of the dollar or its acceptability as an international reserve currency but because of special factors, the reduction of the present U.S. deficit is important if there is danger of lack of confidence in the dollar; (iv) for the continued position of the dollar as an international currency, it is essential that there be no restrictions, however disguised, on the use of dollars to finance international transactions, even more essential than convertibility into gold at a fixed price; (v) the present international financial system, based essentially on the operation of the private international credit mechanism, is viable and there is no practical substitute in sight.

Recommendations

My own recommendations for the U.S. balance of payments policy are as follows:

1. Reiterate the United States confidence in the present international financial system and its ability to cope with any foreseeable problem, including that of the U.S. balance of payments. This would include reiteration of the principle of stable exchange rates changed only with international agreement, and of keeping the U.S. dollar as the key international reserve and trading currency.

2. Make clear that under no circumstances will the United States change the price of gold and that all who speculate to the contrary must do so at their own risk--whether private individuals, governments, or monetary authorities.

3. Announce that the policy of the United States is to end the policy of only small usage of the Fund, and that it will if needed make full use (up to about \$5 billion) of its access to the Fund's resources within the framework of the Fund's policies. (The financing is available although it may involve sales of gold by the Fund. The Fund's gold holdings exist for this very kind of purpose.)

The United States would thereby submit itself to serious international scrutiny and review of its policies which would accompany a drawing or stand-by in the billions of dollars. This would be an answer to the French insistence that there is not sufficient "multilateral surveillance" of the U.S. balance of payments.

4. Make clear that the United States does not wish any country abroad to hold dollars instead of gold except on a purely voluntary basis. This means bringing to an end the present anomalous situation wherein it is announced U.S. policy that all friendly countries have the right to freely purchase and sell gold at \$35 an ounce, but governments abroad keep on repeating that they believe the United States does not wish them to exercise this right. The United States public would then be informed that there might well be an important further decline in the U.S. gold holdings. It is not expected that this decline would be very large as long as there is confidence in the U.S. economy and it is clear to all that no change in the price of gold will take place at least as long as the present Administration is in office. In the meantime take steps to end the present gold backing requirements with respect to currency and deposits. The present Bill is a good first step. Energetic steps could be taken to educate the public on the improved international capital position of the United States and to eliminate some of the prevalent misconceptions about the balance of payments. It could be explained that the strength of the dollar is based on its full convertibility into other currencies for any purpose and on the strength of the U.S. economy. The United States would indicate that it is satisfied with its ability to compete abroad successfully and it does not regard the increase in the so-called United States dollar deficit as a reflection on either the soundness of the currency, the strength of the economy, or the appropriateness of present governmental and monetary policies. In other words, the U.S. balance of payments deficit reflects politico-military-international relations and problems.

5. Make clear that the United States does not intend to take any measures which would disrupt the international economic system through governmental restraints on external financial transactions.

6. Announce that with respect to the balance of payments effects of its political and military activities abroad, it would intend to have discussions with countries concerned to ensure that needed international political and military activities were not impeded by balance of payments considerations. It would announce its belief that the successful wartime experience with Lend-lease and reverse Lend-lease is applicable to present-day problems. The United States could indicate that if no solution were found within this framework, it would have to find some other financial arrangements which will eliminate the responsibility for converting into gold at the \$35 fixed price these military expenditure dollars.

7. The United States Administration would announce that it intends to pursue policies designed to continue growth, diminish unemployment, but not at a magnitude or rate that would revive inflation.

8. Reconsider measures already taken to deal with the balance of payments problem to ensure that they are not causing more harm than good by either weakening confidence in the currency or interfering with the effective functioning of the international economy. In the meantime to avoid any undesirable measures which are taken because of an unwarranted lack of confidence in the underlying strength and attractiveness of the U.S. dollar.

It would be possible to devise a system like lend-lease and reverse lend-lease whereby differences in military and foreign aid expenditure resulted in special forms of assets, while the dollar balances which resulted from commercial transactions continued to be accumulated, held voluntarily, and convertible at will into gold at a fixed price by the United States. If this is done, the large

U.S. deficit would disappear. It would ensure in the monetary and financial field that inequalities in burden sharing in the military and practical fields do not result in a great strain and threat and even possible collapse of the monetary system and also exacerbate all international relations. If not done, it would at least become clear that the monetary system is being strained by the special political and military needs of the current world situation, and the discrepancies in the willingness of countries to undertake responsibilities in the military and political field. It would thus help restore confidence in the U.S. dollar and put the balance of payments deficit in proper perspective.

If countries abroad are not prepared to do any of the above, the United States should inform them that it is considering proposing for international consideration the suspension or end of the present tie between the dollar and gold. This might well mean abolishing a floor under the price of gold. Such talk might well induce a flight from gold instead of the past situation of a flight into gold. A flight from gold would strengthen all currencies particularly the U.S. dollar and sterling.

In these discussions the United States could point out that the relatively small amounts involved in military and related expenditures were threatening a re-emergence of economic nationalism with grave consequences for monetary, political and military relations among the allies of the Western world. If this happened, the United States was the one country that could hope to maintain reasonable prosperity in a dog eat dog world. If countries outside of the United States are concerned about excessive U.S. private investments in their industries, this should be tackled as a political question, capable of discussion and compromise--not as a balance of payments problem. Even if the United States had no balance of payments deficit this investment problem would exist.

This memorandum has not discussed the possible changes in domestic policies which would reduce greatly or eliminate the balance of payments deficit. Of course there is always the possibility of improving the techniques used in managing the balance of payments and such techniques should be subject to constant

review. Too often the failure to satisfy the public with respect to queries raised about balance of payments management, leads to feelings that something fairly fundamental may be wrong. For example, it may well be desirable to inform the public as to the considered authoritative views on the implications for the domestic economy and for the balance of payments of the kinds of interest rate changes being advocated by some Europeans. In any case, however, it is felt that the fundamental balance of payments position of the United States is such that from this viewpoint the Administration can implement its stated domestic objectives.

February 15, 1965

Mr. J. Q. Hollow
Chief Cashier
Bank of England
London E.C.2, England

Dear *Jasper*

In the months which have passed since you so kindly talked with me and my colleagues, Mrs. Boskey and Mr. de Lesseps, about the prospects for borrowing in your country's markets under the terms of the proposal submitted to the United Nations Conference on Trade and Development by Governor Horowitz, the Bank staff report on the proposal has been completed. Mr. Woods has just transmitted it to the Secretary General of the United Nations. I thought perhaps you might be interested in seeing the report, and I therefore enclose a copy.

May I take this occasion to thank you again for your help and courtesy and for the time and thought you and your associates devoted to our inquiry.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Enc.

SEBoskey:tf

IDENTICAL LETTER SENT TO:

Mr. Andrew Carnwath
Barings Bros. & Co., Ltd.
8 Bishopsgate
London E.C.2, England

Mr. G. Gluck, General Manager
Dresdner Bank, A.G.
Gallusanlage 7
Frankfurt, Germany

Dr. Paul Krebs, Director
Deutsche Bank, A.G.
Junghefstrasse 5-11
Frankfurt, Germany

Mr. E. Lindegger, Manager
Credit Suisse
Paradeplatz 8
Zurich, Switzerland

Mr. D. C. Renooij, General Manager
Algemene Bank Nederlands, N.V.
Vijzelstradt 32
Amsterdam - C, The Netherlands

Dr. L. Lammers, Deputy General Manager
Amsterdamsche Bank, N.V.
Amsterdam
Herengracht 595

Mr. M. W. Holtrop, President
Nederlandsche Bank, N.V.
Oude Turfmarkt 127-129
Amsterdam - C

Mr. Maurice Schlogel, Deputy General Manager
Credit Lyonnais
19 Boulevard des Italiens
Paris, France

February 15, 1965

Mr. John Portsmore
Bank of England
London, E.C.2, England

Dear

In the months which have passed since you so kindly talked with me and my colleagues, Mrs. Boskey and Mr. de Lesseps, about the prospects for borrowing in your country's markets under the terms of the proposal submitted to the United Nations Conference on Trade and Development by Governor Horowitz, the Bank staff report on the proposal has been completed. Mr. Woods has just transmitted it to the Secretary General of the United Nations. I thought perhaps you might be interested in seeing the report, and I therefore enclose a copy.

May I take this occasion to thank you again for your help and courtesy and for the time and thought you devoted to our inquiry.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Enc.

SEBoskey:tf

IDENTIAL LETTER SENT TO:

Mr. O. Emminger, Director
Bundesbank
Bonn, Germany

Viscount Harcourt
Morgan Grenfell
23 Gt. Winchester St.
London E.C.2, England

Mr. Bernard de Margerie, Manager
Banque de Paris et des Pays Bas
3, Rue d'Antin
Paris, France

Mr. J. Neary, Manager
Societe General
29 Boulevard Haussmann
Paris, France

Mr. George D. Woods

February 17, 1965

Irving S. Friedman

The U.S. Dollar and the Payments Crisis

I have tried to bring together in this memorandum some thoughts which I have had for some years on the U.S. balance of payments deficit, its implications for the use of the U.S. dollar as an international currency and how the deficit might be tackled without injuring the international position of the dollar. As you know, I do not think there is a more important or urgent problem in international economic relations today, including development finance.

Most--and probably all, of the thoughts expressed in this memorandum have been expressed in writing or orally, going back in some cases to the late 1950's. I had hoped to write a memorandum which would more adequately digest this past work and experience and thus give more substantiation for the conclusions and recommendations. However, I believe that the problems are too urgent to use more time for polishing further the following discussion.

Attachment

Mr. Kamarek

February 16, 1965

Irving S. Friedman

Staff

1. I believe that you ought to ask for about 50 or 60 more economists in the next Budget. I arrive at this figure as follows:

The Economic Adviser to the President will probably be involving about 20 to 30 economists in his work during the next two or three years, of which only about 5 or 6 will come from his own office. Secondly, discussions with the Projects Department will indicate that they probably would like to have another 5 or 6 economists working on their kind of problems, while similarly, the International Finance Corporation would want a few people working on their problems which would not really be covered by the work of others. This alone would give about 30 or 40 people. In addition, to carry on the work of the Economics Department which is not included with that which has been mentioned thus far, would take a corps of people plus strengthening the work being done on individual countries. These groups should encompass groups on economics, statistics, basic research, operational research, operational research, etc.

2. I am thinking that we ought to be planning a publication called Development Economics which would be similar to staff papers of the Fund to be contributed by members of the staff of the World Bank and be a by-product of their work. It would be difficult to get such a publication mounted at the present time, but it would take a number of months, if not a year, to plan adequately. In the meantime the people should be here and beginning to do the kind of work that would provide the necessary flow of articles.

3. If there is some complaint about too many people being contemplated for the Economics Department it would be possible to think in terms of a two-year program of recruitment, leaving open the possibility of having even more in the second year if the work gets started more rapidly and people are recruited more rapidly than it is now thought possible.

4. It is very essential to nail down the point again with the Administrative people that in recruitment of young economists we are not to be bound by the limitations of the present Junior Professional Program. There are undoubtedly a number of young economists who would be prepared to come to the Bank but would not be interested in the kind of experience now embodied in the Junior Professional Program. It would be better to get such people, and after they are here and have made their longer-run decisions to stay with the Bank, it would be then possible to put them through a similar program. I do not see this as obviating the need for the Junior Professional Program but rather as being something that exists side by side. In the same way as the Projects Department cannot hope to recruit their professionals through such a program only, so I think the Economics Department cannot limit itself. However, of course, if there are good young economists who wish to come through the Program, it would be a happy thing to have them do so.

Mr. Nespoulous-Neuville

February 15, 1965

Irving S. Friedman

On your draft of February 10 with respect to the question of the study on insurance costs I am somewhat puzzled. We have already told Karasz, in my letter of January 11, that we would not object to a study on insurance costs. Are you now saying that we should not do it? I think if we change our original decision I would like to have a Brief memorandum from you indicating why we are changing our decision, together with a draft reply. I would like to be able to send this memorandum to Mr. Karasz.

February 15, 1965

Dear Arthur:

The other day I had occasion to look at my letter to you of January 4, replying to your letter of December 24 reporting on the meeting of the DAC working party on UNCTAD issues.

I notice in the end of the last paragraph a typographical error, which I would like to correct in case this letter is used in the future, or we have reason to refer to it.. The sentence reading, "Similarly, I can't see the Bank reviewing etc. instead of the word "while" please substitute the word "without".

Sincerely yours,

Irving S. Friedman

Mr. Arthur Karasz
I.B.R.D.
4 Avenue d'Iena
Paris 16e
France

Mr. Horst Eschenberg

February 12, 1965

Irving S. Friedman

Mr. R. M. Sundrum

We have received no reply from Sundrum. What about a follow-up?

ISF:prl

Files

February 15, 1965

Irving S. Friedman

Use of IDA Contribution

Mr. Rajan, Executive Director for India, at lunch raised with me the question of India's decision on the use of the 90% contribution by the Part II countries. He thought that India was proposing that together with the use of these funds there should also be foreign exchange payments made. In response to query he suggested that the Indian Government had been thinking in terms of a 50-50 split. He said he had discussed this matter with Mr. Knapp who had suggested that he discuss it further with Mr. Wilson. I told him Mr. Wilson and myself would in different ways be concerned with IDA replenishment, and undoubtedly would be talking to each other.

Mr. Rajan also raised the question of the level of protection given to domestic suppliers. He noted that there seemed to be very different practices in the Bank for different countries. I told him this was a matter which was now under review by the Bank's staff.

ISF:prl

February 12, 1965

Dear Professor Balassa:

Thank you for sending me your curriculum vitae. May I suggest that if convenient to you, you come down here next Thursday or Friday, February 18th or 19th. I expect to be free in the afternoons.

I am not sending additional information at the moment since I think this would be more conveniently and efficiently handled by discussion.

Please let me know if this is agreeable to you.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Professor Bela Balassa
Department of Economics
Yale University
37 Hillhouse Avenue
Box 1972 Yale Station
New Haven
Conn.

ISF:prl

February 12, 1965

Dear Miss Callahan:

I am enclosing a copy of Mr. Garner's article which you sent to me on January 25.

Please tell Mr. Garner I think this is quite good and useful. I have no major deletions or changes to suggest but have made some ~~changes~~ in the text and raised a few questions for Mr. Garner's consideration.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Miss V. A. Callahan
Secretary
Robert L. Garner
Suite 814, American Security Building
730 - 15th Street N.W.
Washington, D.C.

ISF:prl

Mr. Hulley

February 15, 1965

Irving S. Friedman

U.S. Balance of Payments

Could you do a table on the U.S. balance of payments for the last few years, including 1964, which would sharply distinguish between the U.S. balance of payments on commercial account, including private capital short-term and long-term, the U.S. balance of payments on foreign aid account and U.S. balance of payments on military account. This could be done as three separate tables or as one table in three distinct columns.

One problem I see is whether exports can be separated out this way.

February 12, 1965

Dear Geoffrey:

I am enclosing copies of the latest versions of the Operational Memoranda on the Economics Department and the Economic Committee. Various changes have been discussed and cleared with George. The hope is to have this reach you by the time you get to London. I do hope you are enjoying your trip.

With warmest regards,

Sincerely,

Irving S. Friedman

Enclosures (2)

Mr. Geoffrey M. Wilson
International Bank for Reconstruction
and Development
New Zealand House
Haymarket
London, S.W.1
England

February 12, 1965

Dear Burke:

I am enclosing copies of the latest versions of the Operational Memoranda on the Economics Department and the Economic Committee. Various changes have been discussed and cleared with George. The hope is to have this reach you by the time you get to Rome.

We have been ploughing ahead with the work here and things are beginning to shape up. I do hope you are enjoying the trip.

With warmest regards,

Sincerely,

Irving S. Friedman

Enclosures (2)

Mr. J. Burke Knapp
Hassler Hotel
Rome
Italy

Mr. Andrew Kamarek

February 12, 1965

Irving S. Friedman

GATT - New Chapter on Trade & Development

Please note Mr. Woods's comments, and we should talk about, as suggested, as soon as you are ready to do so. It has been somewhat delayed because I had asked Roger Anderson for some background material on this.

ISF:prl

Mr. Avramovic, Mr. Demuth

February 11, 1965

Irving S. Friedman

SID Speech for Mr. Woods

Mr. Woods has asked that I get your suggestions on the attached SID speech. Mr. Knapp read it before he left and made a few changes in the text which you will notice.

Attachment

Mr. Richard H. Demuth

February 11, 1965

Irving S. Friedman

UNCTAD Meetings - Bank Representation

Thanks for your memorandum of February 4. I have discussed it with Messrs. Avramovic and Kamarck. I am afraid that I cannot give names at present but we are all agreed that all of these meetings involve subjects of considerable interest to the economic work of the Bank. However, at the moment we are trying to sort out the various assignments taken on by the Economics Department, and I will be in a better position to give you names after this is done.

I would appreciate being informed as soon as possible as to the agenda of the meetings of the Trade and Development Board in order to decide who might be the best to go.

cc: Mr. Avramovic
Mr. Kamarck

Mr. George D. Woods

February 10, 1965

Irving S. Friedman

Fund Mission to the United Arab Republic

I believe you will find the attached note of interest.

Mr. Chaufournier

February 10, 1965

Irving S. Friedman

Fund Memorandum on Chilean Debt Meeting and Debt Renegotiation

I understand that Finch is leaving this weekend to go to Chile to work with the Chileans on the problem of supplier credits and arrears! He will then go to the next debt conference in Paris. Did you know this?

I would appreciate your reaction to this memorandum. It may also, of course, be shown to Mr. Alter.

Attachment

Mr. George D. Woods

February 10, 1965

Irving S. Friedman

Economics Department Collaboration with Area Departments

I think you will be interested in the attached memorandum from Mr. Kamarck on his discussions with the Area Department Directors. His discussions, I think, have come out quite well and I agree with the suggestion made in the last paragraph about recognizing the Area Departments continuing responsibility for country research. We are amending the Operational Memorandum on the Economics Department accordingly.

Attachment

Mr. George D. Woods

February 10, 1965

Irving S. Friedman

Program for the United States Balance of Payments

The present discussion of the U.S. balance of payments is undoubtedly leading to an atmosphere of crisis. There is much discussion and anticipation of what the President is going to recommend in his Message. It is to be expected that very large sums of monies, i.e., in the hundreds of millions of dollars, are being, or soon will be, moved abroad in anticipation of some kinds of control measures, whether direct or in some form of taxation.

My own recommendations for the U.S. balance of payments policy are as follows:

1. Reiterate the United States confidence in the present international monetary system and its ability to cope with any foreseeable problem, including that of the United States. This would include reiteration of the principle of stable exchange rates changed only with international agreement, moreover, the United States is determined to keep the U.S. dollar as the key international reserve and trading currency.
2. Make clear that under no circumstances will the United States change the price of gold and that all who speculate to the contrary must do so on their own responsibility--whether private individuals, governments, or monetary authorities.
3. Announce that the policy of the United States is, if needed, to make full use (up to about \$5 billion) of its access to the Fund's resources within the framework of the Fund's policies. End the policy of only small usage and make clear that the United States expects that the financing will be found by the Fund. (The financing is available although it may involve gold sales by the Fund which exist for this very kind of purpose as well as large use of other currencies.)
4. Propose in the Monetary Fund that the large countries undertake to make use of the Fund and thereby submit themselves to international scrutiny and review of their policies. This would be an answer to the French insistence that there is not sufficient "multilateral surveillance" of the U.S. balance of payments. It would probably be desirable to go so far as to make use of the Fund virtually obligatory by the major countries and thus ensure this desired multilateral surveillance by the IMF and the avoidance of measures destructive to the international financial system, e.g., restraints on capital movements or investments abroad.
5. Make clear that the United States does not wish any country abroad to hold dollars instead of gold except on a purely voluntary basis. This means bringing to an end the present anomalous situation wherein it is announced U.S. policy that all friendly countries have the right to freely purchase and sell gold at \$35 an ounce, but governments abroad keep on repeating that they believe the United States does not wish them to exercise this right. The United States public would then be informed that there might well be an important further decline in the U.S. gold holdings. It is not expected that this decline would be very large as long as there is confidence in the U.S. economy and it is clear to all that no change in the price of gold will take place at least as long as the present Administration is in office.

6. Make clear that the U.S. does not intend to take any measures which would disrupt the international economic system, either through direct controls or through further measures of taxation. The strength of the dollar is based on its full convertibility into other currencies for any purpose and on the strength of the U.S. economy. The United States would indicate that it is satisfied with its ability to compete abroad successfully and it does not regard the increase in the so-called United States dollar deficit as a reflection on either the soundness of the currency, the strength of the economy, or the appropriateness of present governmental and monetary policies. In other words, the U.S. balance of payments deficit reflects politico-military-international relations and problems. It is essential to take balance of payments measures appropriate to the causes and, thereby, avoid unnecessary damage to the U.S. economy which is enjoying unparalleled prosperity and is the basic underpinning for the military and political strength of the Western world.

7. The United States would invite other governments to adopt the discipline and responsibilities of the gold exchange standard, i.e., conversion of their currencies into gold at a fixed price, thereby removing some of the pressure now only on the dollar.

8. The United States would indicate that with respect to the balance of payments effects of its political and military activities it would intend to have discussions with countries concerned to ensure that needed international political and military activities were not impeded by balance of payments considerations. It would announce its belief that the successful war-time experience with Lend-lease and reverse Lend-lease is applicable to present-day problems. The United States would then open up negotiations by making clear that the solutions found would have to be within the framework of avoiding any change in the price of gold and maintaining the convertibility of the dollar into all currencies for all purposes. The United States could argue that an increase in the price of gold or the introduction of restraints on convertibility would mean penalizing its own citizens or many friends abroad who have shown confidence in the United States, in order to benefit the few who are being difficult. The United States would indicate that if no solution were found within this framework, it would have to consider abolishing the fixed link between gold and the dollar.

9. The United States Administration would announce its conviction that as long as inflation is avoided there is no need for a deflationary policy. It intends to pursue policies designed to continue growth, diminish unemployment, but not at a magnitude or rate that would revive inflation. To this end it is calling upon the responsible agencies of the Government, together with advisory committees of business and other sectors of the economy, to give it their views as to whether they foresee dangers of inflation, and if they do, what they would propose to do about it. (There are many variants of this approach possible, designed to give confidence at home and abroad of the profound commitment of the Government to the avoidance of inflation while trying to maintain a prosperous economy.)

10. Reconsider measures already taken to deal with the balance of payments problem to ensure that they are not causing more harm than good by either weakening confidence in the currency or interfering with the effective functioning of the economy, e.g., tied aid and interest equalization tax. This should not be done by itself but as part of a general approach as outlined above. The United States should reiterate its conviction that a truly multilateral system of trade and payments is that which is best suited to the United States.

11. In the meantime to avoid any undesirable measures which are taken because of an unwarranted lack of confidence in the underlying strength and attractiveness of the U.S. dollar.

Mr. George D. Woods

February 9, 1965

Irving S. Friedman

Program for the United States Balance of Payments

The present discussion of the U.S. balance of payments is undoubtedly leading to an atmosphere of crisis. There is much discussion and anticipation of what the President is going to recommend in his Message. It is to be expected that very large sums of monies, i.e., in the hundreds of millions of dollars, are being, or soon will be, moved abroad in anticipation of some kind of control measures whether direct or various forms of taxation.

My own recommendations for the U.S. balance of payments policy is as follows:

1. Reiterate the United States confidence in the present international monetary system and its ability to cope with any foreseeable problem, including that of the United States. This would include reiteration of the principle of stable exchange rates changed only with international agreement.

2. Make clear that under no circumstances will the United States change the price of gold and that all who speculate to the contrary must do so on their own responsibilities--whether private individuals, governments, or monetary authorities.

3. Announce as the policy of the United States to make full use of its access to the Fund's resources within the framework of the Fund's policies. End the policy of small usage and make clear that the United States expects that the financing will be found by the Fund. (The financing is available although it may involve gold sales by the Fund which exist for this very kind of purpose as well as large use of other currencies.)

4. Propose in the Monetary Fund that the large countries undertake to make use of the Fund and thereby submit themselves to international scrutiny and review of their policies. This would be an answer to the French insistence that there is not sufficient "multilateral surveillance" of the U.S. balance of payments. It would probably be desirable to go so far as to make the use of the Fund obligatory by the major countries and thus ensure this multilateral surveillance by the IMF and the avoidance of measures destructive to the international financial system.

5. Make clear that the United States does not wish any country abroad to hold dollars instead of gold except on a purely voluntary basis. This means bringing to an end the present anomalous situation wherein it is announced U.S. policy that all friendly countries have the right to freely purchase and sell gold at \$35 an ounce, but governments abroad keep on repeating that they believe the United States does not wish them to exercise this right. The United States public would then be informed that there might probably be an important further decline in the U.S. gold holdings, but it is not expected that this decline would be very large as long as there is confidence in the U.S. economy and it is made very clear that no change in the price of gold will take place as long as the present Administration is in office.

6. Make clear that the U.S. does not intend to take any measures which would disrupt the international economic system, either through direct controls or through further measures of taxation. The strength of the dollar is based on its full convertibility into other currencies and on the strength of the U.S. economy. The United States would indicate that it is not concerned with its ability to compete abroad successfully and it does not regard the increase in the so-called United States dollar deficit as a reflection on either the soundness of the currency, the strength of the economy, or the appropriateness of present governmental and monetary policies. In other words, the U.S. balance of payments deficit reflects politico-military-international relations and problems. It is essential to take measures appropriate to the causes and, thereby, avoid unnecessary damage to the U.S. economy which is enjoying unparalleled prosperity and is the basic underpinning for the military and political strength of the Western world.

7. The United States would invite other governments to adopt the discipline and responsibilities of the gold exchange standard, i.e., conversion of their currencies into gold at a fixed price.

8. The United States would indicate that with respect to the balance of payments effects of its political and military activities it would intend to have discussions with countries concerned to ensure that needed international political and military activities were not impeded by balance of payments considerations. It would announce its belief that the successful war-time experience with Lend-lease and reverse Lend-lease is applicable to present-day problems. The United States would then open up negotiations by making clear that the solutions found would have to be within the framework of avoiding any change in the price of gold and maintaining the convertibility of the dollar. The United States would argue that an increase in the price of gold or the introduction of restraints on convertibility would mean penalizing its many friends who have shown confidence in the United States, in order to benefit the few who are being difficult. If no solution were found within this framework, it would have to consider abolishing the fixed link between gold and the dollar.

9. The United States Administration would announce its conviction that as long as inflation is avoided there is no need for a deflationary policy. It intends to pursue policies designed to continue growth, diminish unemployment, but not at a magnitude or rate that would revive inflation. To this end it is calling upon the responsible agencies of the Government, together with advisory committees of business and other sectors of the economy, to give it their views as to whether they foresee dangers of inflation, and if they do what they would propose to do about it. (There are many variants of this approach possible, designed to give confidence at home and abroad of the profound commitment of the Government to the avoidance of inflation while trying to maintain a prosperous economy.)

10. Reconsider measures already taken to deal with the balance of payments problem to ensure that they are not causing more harm than good by either weakening confidence in the currency or interfering with the effective functioning of the economy. This should not be done by itself but as part of a general approach as outlined above. The United States should reiterate its conviction that a multilateral system of trade and payments is that which is best suited to the United States.

11. In the meantime to avoid any undesirable measures which are taken because of an unwarranted lack of confidence in the underlying strength and attractiveness of the U.S. dollar.

Mr. George D. Woods

February 9, 1965

Irving S. Friedman

Program for the United States Balance of Payments

The present discussion of the U.S. balance of payments is undoubtedly leading to an atmosphere of crisis. There is much discussion and anticipation of what the President is going to recommend in his Message. It would be most surprising if there were not very large sums of monies, i.e., in the hundreds of millions of dollars, that were not being moved abroad in anticipation of some kinds of control measures whether direct or various forms of taxation.

My own recommendations for the U.S. balance of payments policy is as follows:

1. Reiterate the United States confidence in the present international monetary system and its ability to cope with any foreseeable problem, including that of the United States.
2. Make clear that under no circumstances will the United States change the price of gold and that all who speculate to the contrary must do so on their own responsibilities--whether private individuals, government or monetary authorities.
3. Announce as the policy of the United States to make full use of its access to the Fund's resources. End the policy of small usage and make clear that the United States expects that its financing will be found by the Fund. (The financing is available although it may involve gold sales by the Fund which exist for this very kind of purpose.)
4. Propose in the Monetary Fund that the large countries undertake to make use of the Fund and thereby submit themselves to international scrutiny and review of their policies. This would be an answer to the French insistence that there is not sufficient "multilateral surveillance" of the U.S. balance of payments. It would probably be desirable to go so far as to make the use of the Fund obligatory by the major countries and thus ensure this multilateral surveillance by the IMF.
5. Make clear that the United States does not wish any country abroad to hold gold except on a purely voluntary basis. This means bringing to an end the present situation where it is announced U.S. policy not to interfere with the free purchase and sale of gold at \$35 an ounce, but governments abroad keep on repeating that they believe the United States does not wish them to exercise this right. The United States public would then be informed that this might involve an important decline in the U.S. gold holdings, but one that could be readily handled by the U.S.
6. Make clear that the U.S. does not intend to take any measures which would disrupt the international economic system, either through direct controls or through further measures of taxation. The strength of the dollar is based on its full convertibility and the strength of the U.S. economy.

The United States would indicate that it is not concerned with its ability to compete successfully and it does not regard the increase in the so-called United States dollar deficit as a reflection on either the soundness of the currency, the strength of the economy, or the appropriateness of present governmental and monetary policies.

7. The United States would indicate that with respect to the balance of payments effects of its political and military activities it would intend to have discussions with countries concerned to ensure that needed international political and military activities were not impeded by balance of payments considerations. The United States would then open up negotiations making clear that the solutions found would have to be within the framework of avoiding any change in the price of gold and maintaining the convertibility of the dollar. The United States would argue that an increase in the price of gold or the introduction of restraints would mean penalizing its many friends who have shown confidence in the United States, in order to benefit the few who are being difficult.

8. The United States feels that the only effective way to deal with a country's balance of payments is through appropriate fiscal monetary and other economic policies. The U.S. Administration is convinced that as long as inflation is avoided there is no need for a deflationary policy. It intends to pursue policies designed to continue growth, diminish unemployment, but not at a magnitude or rate that would revive inflation. To this end it is calling upon the responsible agencies of the Government, together with advisory committees of business and other sectors of the economy, to give it its views as to whether they foresee dangers of inflation, and if they do what they would propose to do about it. This would be handled in such a way as to ensure that the Government is eager to avoid inflation and to minimize interference in the day-to-day life of the economy. (There are many variants of this approach possible, designed to give confidence at home and abroad of the profound commitments of the Government to avoid inflation while trying to maintain a prosperous economy.)

9. Reconsider measures already taken to deal with the balance of payments problem to ensure that they are not causing more harm than good by either weakening confidence in the currency or interfering with the effective functioning of the economy. This should not be done by itself but as part of a general approach as outlined above. The United States should reiterate its conviction that a multilateral system of trade and payments is that which is best suited to the United States.

10. In the meantime avoid any measures which give the impression of a response to a crisis or of a situation which is getting out of hand.

February 9, 1965

Dear Gabriel:

I was very glad to hear that you are coming in late March. I would like to say that we would be very pleased to have you stay with us during this time, and if that isn't feasible, at least to have you spend an evening with us. Please let me know if you are free any night and if you are whether you'd like to come alone or whether you would like us to invite some mutual friends.

I am still kind of hoping to go to the March meeting but life continues to be very hectic here. Also Edna's mother has been very ill although now she seems to be out of the woods. We hope there won't be any relapse but of course we simply do not know. Everything else goes well with the family.

With warmest regards to you and Helene,

Sincerely,

Irving S. Friedman

Mr. Gabriel Ferras
The General Manager
Bank for International Settlements
Basle
Switzerland

February 9, 1965

Dear Andy:

With reference to your memorandum to the Executive Committee of February 4 proposing life memberships in the Society for Marion Clawson, Philip M. Glick, and Gove Hambidge I heartily concur.

Sincerely yours,

Irving S. Friedman

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

Mr. Avramovic

February 9, 1965

Irving S. Friedman

DAC Meeting February 25 and 26

Could you attend the meeting of Mr. Everts' Working Group scheduled to meet February 25 and 26. The attached memoranda explains this.

Attachment

UNCLAS mTgs.

Feb. 9, 1965

Mr. Avramovic

Mr. Kamarck

I would appreciate your comments
before replying to the attached memorandum
from Mr. Demuth.

Mr. Nespoulous-Neuville

February 9, 1965

Irving S. Friedman

Letter from Mr. Karasz

Would you please draft a reply to the attached letter
from Mr. Karasz.

Attachment

Mr. Friedman

February 8, 1965

Bimal Jalan

Meeting with Mr. Dell of the U.M. Trade and Development Board

In your meeting with Mr. Dell on February 6, the following UNCTAD resolutions, pointing to the Bank in one way or the other, were taken up:

(i) A.IV.4 - on "Consultative Groups"

(ii) A.IV.5 - on "Transfer of IBRD Surplus to IDA"

(iii) A.IV.9 and A.IV.10 - on "Problems of Regional Development." On this, you said that the Bank has been interested in the problem of regional development for sometime, but that at the moment no comprehensive general economic study of the problems of regional development is planned.

(iv) A.IV.11 - on "Horowitz Proposal." You said that a staff study on this proposal has been written. It would be sent to the U.N.

(v) A.IV.12 - on "Investment Insurance," "Settlement of Investment Disputes" and "Problem of Guarantees of Securities Floated by Developing Countries." You said that Bank studies on investment insurance and settlement of investment disputes are in progress, but a study of guarantees of securities floated by developing countries has not been started as such, but similar suggestions had been considered by the Bank and were still under consideration.

(vi) A.IV.14 - on "Supplier Credits" you said that this has been a problem of continuing interest for the Bank. But the work on supplier credits is being expedited in response to the UNCTAD resolution and a study is expected to be ready for transmittal to the UNCTAD by the end of the year. Mr. Dell suggested that it would be very helpful if the Board on Trade and Development could have this study before the end of the year, preferably by June.

(vii) A.IV.17, A.IV.18 and A.IV.19 - on "IMF's Compensatory Credit System," "Long-term Supplementary Financing" and "International Monetary Issues." Mr. Dell said that the Board on Trade and Development would like to take up these problems for consideration together. You, however, felt that these resolutions should be taken separately, and that the Bank would not like to put its paper on supplementary financing as a part of the discussion on general monetary issues. You looked at the question of supplementary financing as a development problem, and do not regard it as a monetary issue. The scheme for supplementary financing would probably be more acceptable

if it is kept independent of a scheme for the reform of the monetary system; and you therefore like to keep these two issues quite distinct from each other.

Regarding the Bank's study on compensatory financing, you said that the Bank has in fact been carrying on two inter-related studies. Apart from the study on U.K./Swedish proposal, there is in progress a longer-term study on external requirements. You emphasized that this would be a continuous repeated exercise over the years, and the one that is expected to be completed this year would only be a preliminary study. You said that you would like the Bank study on capital requirements to be published for general circulation, but you weren't sure whether the quality of this year's study would be good enough for that. Mr. Dell asked whether the Bank would be able to make this study available to the Trade and Development Board, but this you weren't prepared to give until you saw the quality of the preliminary work, which would be sometime in June.

On Resolution A.IV.18, Mr. Dell said that if the Bank could assure the Board that all the provisions of this resolution would be taken care of by the Bank study, the Board wouldn't have to undertake another study on its own. You said that the Bank study was specifically related to Section A of the resolution but does cover certain other issues raised in Section B of the resolution insofar as they are connected with the frame of reference of Section A. Thus, for instance, the study does deal with the question of what countries should be eligible for compensatory financing, and explores some of the implications of adverse movements on terms of trade. But the Bank hasn't made a specific study of the terms of trade problems of the developing countries. The study does not cover in detail the question of "effects of significant rises in import prices" (raised in Note 3 in the resolution) either.

Mr. Dell said that in order to decide whether the Board should make its own study on certain aspects of this resolution, he would like to know whether the Bank in its study would cover (i) the problem which arises with falling terms of trade, and (ii) point 5 of Section B, which says that "facilities be provided for interim financing, when warranted, to assist the developing countries concerned while the longer-term problem is being assessed."

You said that you would let him have the reply to the above two points after discussing these with some other people in the Bank.

In this memorandum I refer to the various resolutions by their shorthand title for the purposes of quick identification of the contents of each of the resolutions discussed. A short summary of these various recommendations is in my memorandum of December 2, 1964.

B.Jalan/vch

edited by Mr. F. 3/9/65

Mr. George D. Woods

February 8, 1965

Irving S. Friedman

Foreign Aid Distribution

I have noted that frequently in various discussions the question of foreign aid distribution arises. I believe you will be interested in the attached tables. They point to the conclusion that if one looks at official United States assistance alone about 15 major recipient countries account for about 70 per cent of the total; 23 countries accounted in 1963 for about 80 per cent of the gross commitments.

However, if one considers total official flow from DAC countries and from multilateral agencies as a group the concentration is less than in the case of the U.S. alone. The top 23 DAC recipients account for about 70 per cent of the total and 33 countries account for about 80 per cent of the total.

The attached tables may be regarded as substituting for the papers given to you on October 30, 1964 by Mr. Avramovic. The attached tables were prepared by Mr. Avramovic and Mr. Jalan.

Attachment

Mr. Friedman

February 8, 1965

Bimal Jalan

Meeting with Mr. Dell of the U.N. Trade and Development Board - Feb. 6, 1965

In your meeting with Mr. Dell on February 6, the following UNCTAD resolutions, pointing to the Bank in one way or the other, were taken up:

(i) A.IV.4 - on "Consultative groups"

(ii) A.IV.5 - on "Transfer of IBRD surplus to IDA"

(iii) A.IV.9 and A.IV.10 - on "Problems of regional development". On this, you said that the Bank has been interested in the problem of regional development in particular countries for some time, but that at the moment no comprehensive economic study of the problems of regional development is planned.

(iv) A.IV.11 - on "Horowitz proposal". You said that a staff study on this proposal has been written, but no definite action is yet planned with respect to this problem.

(v) A.IV.12 - on "Investment Insurance", "Settlement of Investment Disputes", "Problem of Guarantees of Securities Floated by Developing Countries". You said that Bank studies on investment insurance and settlement of investment disputes are in progress, but the problem of guarantees of securities floated by developing countries has not yet been taken up.

(vi) A.IV.14 - on "Supplier Credits" you said that this has been a problem of continuing interest for the Bank. But the study on supplier credits is being expedited in response to the UNCTAD resolution and is expected to be ready for transmittal to the UNCTAD by the end of the year. Mr. Dell suggested that it would be very helpful if the Board on Trade and Development could have this study before the end of the year, preferably by June.

(vii) A.IV.17, A.IV.18, A.IV.19 - on "IMF's compensatory credit system", "Long-term supplementary financing" and "International monetary issues" respectively. Mr. Dell said that the Board on Trade and Development would like to take up these problems for consideration together. You, however, felt that these resolutions should be taken separately, and that the Bank would not like to put its paper on supplementary financing as a part of the discussion on general monetary issues. The Bank works at the question of supplementary financing as a development problem, and does not regard it as a monetary issue. The scheme for supplementary financing ~~now~~ would be acceptable to developed countries only if it is kept independent of a scheme for the reform of the monetary system; and the Bank would, therefore, like to keep these two issues quite distinct from each other.

Regarding the Bank's study on compensatory financing, you said that the Bank has in fact been carrying on two inter-related studies. Apart from the study on U.K./Swedish proposal, there is in progress a longer-term

study on external requirements. You emphasized that this would be a continuous repeated exercise over the years, and the one that is expected to be completed this year would only be a preliminary study. You said that you would like the Bank study on capital requirements to be published for general circulation, but you weren't sure whether the quality of this year's study would be good enough for that. Mr. Dell wanted an assurance whether the Bank would be able to make this study available to the U.N. Board, but this you weren't prepared to give until you saw the quality of the preliminary work, which would be sometime in June.

On Resolution A.IV.18, Mr. Dell said that if the Bank could assure the U.N. Board that all the provisions of this resolution would be taken care of by the Bank study, the Board wouldn't have to undertake another study on its own. You said that the Bank study was specifically related to Section A of the resolution but does cover certain other issues raised in Section B of the resolution insofar as they are connected with the general resolution of Section A. Thus, for instance, the study does deal with the question of what countries should be eligible for compensatory financing, and explores some of the implications of adverse movements on terms of trade. But the Bank hasn't made a specific study of the terms of trade problems of the developing countries. The study does not cover the question of "effects of significant rises in import prices" (raised in Note 3 in the resolution) either.

Mr. Dell said that in order to decide whether the Board should make its own study on certain aspects of this resolution, he would like to know whether the Bank in its study would cover (i) the problem which arises with falling terms of trade, and (ii) point 5 of Section B, which says that "facilities be provided for interim financing, when warranted, to assist the developing countries concerned while the longer-term problem is being assessed."

You said that you would let him have the reply to the above two points after discussing these with some other people in the Bank.

In this memorandum I refer to the various resolutions by their shorthand title for the purposes of quick identification of the contents of each of the resolutions discussed. A short summary of these various recommendations is in my memo of December 2, 1964.

Mr. George D. Woods

February 8, 1965

Irving S. Friedman

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Consolidation Loan for Liberia

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WBG ARCHIVES

Mr. Dale mentioned to me the other day on a most confidential basis that First National City was considering the possibility of a loan to Liberia which would stretch out its consolidation indebtedness over a longer period of time. I believe he mentioned the figure of 25 years. This was being considered because the present firm commitments of Liberia on repayment of external indebtedness are so severe as to hinder greatly any further development requiring budgetary expenditure.

Mr. Dale said the question has been raised as to whether it was possible for the Bank to use its guarantee authority. First National City he said, had indicated that with such a guarantee it would be much easier for them to envisage this kind of long-term loan. Dale commented that from a general point of view this action by the World Bank would seem justifiable because it would help development. I told him that we were thinking about the current problem of guarantees and would bring this particular case to your attention.

He requested that this be given no further circulation, so I have not tried to find out whether our Area people know of this (which of course they might) nor have I tried to inform them of this conversation. This query itself relates, of course, to the query made by Mr. Thors, reported to you in my memorandum of February 1. I am giving further thought to these matters but would be pleased to have a chance to discuss them with you at any time convenient to you.

ISF:pr1

Messrs. Broches, DeLoach, Alderson

February 5, 1965

Irving S. Friedman

Operational Memoranda

Attached hereto are copies of the Operational Memoranda on the Economics Committee and the Economics Department. Mr. Woods has expressed his agreement with them.

Needless to say any comments would be welcome.

Attachments

OPERATIONAL MEMORANDUM

ECONOMIC COMMITTEE

Function

1. The main responsibility of the Economic Committee is to review Bank and IDA proposals with respect to economic operations and activities and to recommend to the President action to be taken thereon, where appropriate. Economic operations and activities include formulation of economic judgments and policies, the implementation of general economic policies in the other operations and activities of the Bank and IDA, research, and publication of economic and statistical material. The Economic Committee also ensures that high standards of economic performance are maintained in the economic work of the Bank and IDA.

Membership

2. The members of the Committee are Mr. Irving S. Friedman, The Economic Adviser to the President (Chairman), the Director of the Economics Department (Deputy Chairman), Mr. Leonard Rist, Special Adviser to the President, the Economic Advisers of the Departments of the Bank, the Director for Special Economic Studies, and the Director of the E.D.I. The Director of the Area Department concerned will also attend when one of the countries within his area of responsibility is being considered. The Secretariat shall be provided by the Secretary's Department.

Attendance

3. The members of the Committee and the Secretary of the Committee will attend all meetings. Temporary alternates may be designated by the Department Director in case of absence. The following may also attend: the Chairman of the Loan Committee, the Directors of the Area Departments, the Projects and Development Services Departments, Mr. Orvis Schmidt, Special Adviser to the President, the Treasurer, the Director of Information or his deputy, the economist members of the country working party or of sub-committees of the Economic Committee (for the part of the meeting during which their recommendations are being considered) and others invited by the Chairman.

Mr. Friedman

February 5, 1965

Bimal Jalan

Assistance Programs of Developed Countries

1. I attach a "quick reference" table on the assistance programs of developed countries, which you had asked me to prepare. The information contained in the table is based on the latest OECD Report on "Flow of financial resources to developing countries" circulated in October, 1964, and its earlier version, circulated in January 1964.

2. Column 3 refers to the total flow of resources to developing countries including contributions to multilateral agencies and bonds floated in developed countries by multilateral agencies.

Columns 4, 5, 6, 7 and 8 refer to bilateral assistance only.

Mr. Andrew Kamarck

February 5, 1965

Irving S. Friedman

You may be interested in a comment made to me by Suzuki at lunch the other day. Namely, that the Bank does not seem to pay attention to the possibilities of financing expansion, or more intensive use of existing facilities. He cited the example of a Japanese owned steel mill in Brazil. I told him I would bring this to the attention of those doing the work.

ISF:prl

Mr. George D. Woods

February 5, 1965

Irving S. Friedman

International Accounts of the United States

With others I have been concerned for many years with the inadequate way in which the United States Government presents its balance of payments. It has the effect of exaggerating the deficit and distorting what is happening in the international capital position of the United States.

Before the war the balance of payments work was largely motivated by a desire to understand what was happening to the international capital position of the country. After the war the balance of payments work was more motivated by the desire to indicate the need for foreign assistance.

Attached hereto is a note which Mr. Hulley of the Bank staff has prepared after discussion with myself, which I believe you will find of interest. He has brought together certain facts along lines which I have believed to be useful in considering the U.S. balance of payments position. As you will see the note is purely factual. I am writing separately for you a memorandum giving some thoughts on the policy implications of the United States balance of payments and various ways in which the present problem might be dealt with without injuring the international financial system, and without losing the benefits of permitting private capital to make its very significant contribution to the development of the world.

Attachment

DECLASSIFIED

AUG 16 2023

February 5, 1965

Mr. George D. Woods

Irving S. Friedman

WBG ARCHIVES

CONFIDENTIAL

Suggestion on the United Kingdom

As you have probably noticed in the newspapers the position of sterling has been somewhat stronger recently than in the previous months since the British election in October. However, the basic situation has not reversed itself. There has not been the reflux of funds into London that was hoped for by the increase in Bank rate and other measures announced by the Government. An impasse has been reached which has not been reflected in a further weakening of sterling because this is a good seasonal period for the British balance of payments. However, unless something happens which starts the reflux of funds to London and ends the present confidence crisis, there is also danger of further relapses and damage to the international financial system.

I was therefore wondering whether the World Bank at this time could increase its' holdings of sterling short-term securities by some sufficient significant amount to impress the market and thereby hopefully trigger off something much bigger in the way of reflux of funds to London. I understand that the present holdings of U.K. short-term Treasury bills is the equivalent of \$135 million ^{1/}, and I was thinking of perhaps an additional \$50 - \$100 million. I appreciate this might be regarded as speculative in view of the talk on devaluation of the pound. However, the U.K. Government has said repeatedly that sterling is not going to be devalued in the foreseeable future. Moreover, I would guess that the U.K. would not give permission to the Bank to invest at this time if it felt that an evaluation was imminent. The Central Banks of Europe do not hold an uncovered position in sterling but they are completely separate national entities. In addition, the sterling held by the Bank is available for use in disbursements in the future to make payments in the sterling area. In many senses any loss in case of devaluation would be a book-keeping loss.

Another possibility for the Bank, in case of devaluation, would be to purchase long-term securities with its sterling assets and hold on to them at least until such time as the additional earnings from the British securities, as compared with American, would offset any nominal loss from depreciation. Perhaps other ways could also be thought of to protect further the position of the Bank against the effects of a possible devaluation if this is regarded as a critical danger.

Another advantage of this action is that it could be done in such a way as not to show up as a drain on the U.S. balance of payments. Since for certain purposes the International Bank is regarded as a foreign holder of assets in the U.S. and a change in such assets by the purchase of U.K. securities would not be regarded as a change in U.S. liabilities or assets viz-a-viz foreign countries.

^{1/} Bank investment in the U.K. increased by \$13 million in calendar 1964.

February 5, 1965

CONFIDENTIAL

Earlier in the year I had discussed this thought very briefly with Mr. Cavanaugh, and I had the impression that he would regard such a move as unwise. I have not raised it with him again. Yesterday when discussing some other matters with Mr. Coombs, including the position of sterling, I asked him on a most personal and confidential basis (we have been exchanging such personal thoughts for years without mishap) whether he thought that something like this at this time might be useful if it were feasible for the Bank to do so or compatible with other policies. He said he thought that it could be very useful. We are both concerned about the "funny money" ideas which are coming out of Europe, centered in the now so-called Ossala group, which is really a sub-committee of the Ten under the Chairmanship of Mr. Ossala of Italy. Further shocks to the international financial system might cause some of the more cautious and sober countries to clutch at straws and make serious errors. Helping to prevent a disruption of the international financial system would be a major contribution to the maintenance of a satisfactory flow of development finance.

If you think there is anything to the idea it could be discussed most discreetly with Mr. Stevens. From my past experience with John Stevens I would have no hesitation about trusting his discretion.

2/4/65

DRAFT : For Economic Cttee)

The regular members of the Committee are Mr. Irving S. Friedman,
Mr. Leonard Rist, the Special Adviser to the President,

the Economic Advisers of the Departments of the Bank, the Director for
Special Economic Studies and the Director of the EDI. The Director of
the Area Department concerned will also attend when one of the countries
within his area of responsibility is being considered. The Chairman will
also invite other Area Departments to attend when in his opinion the
issues or problems to be discussed makes such attendance desirable.

Messrs. Sciolli, Thalwitz, Maccone

February 4, 1965

Irving S. Friedman

WBG ARCHIVES

Meeting of Group

I would like to have a meeting of our group on Friday (February 5) at 3 pm with the following agenda:

1. To hear a report by Mr. Gulhati on his UAR visit.
2. Mr. Dell, of Dr. Prebisch's staff, put to me the question of our study on supplementary financing which is covered by Part A of Annex 418 of the UNCTAD resolutions, would also cover enough of Part B so that a separate study by the Prebisch group would not be necessary, leaving aside para. 1 which refers to the study up to a special fund. I told him that I would take his question under advisement and would give him an answer later, after discussion with interested colleagues.
3. Implications of study and lessons learned from study for IDA Replenishment paper.

cc: Mr. Gulhati

DECLASSIFIED

February 4, 1965

Mr. George D. Woods

AUG 16 2023

Irving S. Friedman

WBG ARCHIVES

Suggestion to the United Kingdom

CONFIDENTIAL

As you have probably noticed in the papers the position of sterling has been somewhat stronger recently than in the previous months since the British election in October. However, the basic situation has not reversed itself. There has not been the reflux of funds into London that was hoped for by the increase in Bank rate and other measures announced by the Government. An impasse has been reached which has not reflected in a further weakening of sterling because this is a good seasonal period for the British balance of payments. However, unless something happens which could start the reflux of funds to London and end the present confidence crisis, there is also danger of further relapses and damage to the international financial system.

I was therefore wondering whether the World Bank at this time could increase its' holdings of sterling short-term securities by some sufficient significant amount to impress the market and thereby hopefully trigger off something much bigger in the way of reflux of funds to London. I understand that the present holdings of U.K. short-term Treasury bills is the equivalent of \$135 million ^{1/}, and I was thinking of perhaps an additional \$50 - \$100 million. I appreciate this might be regarded as speculative in view of the talk on devaluation of the pound. However, I think that the Bank has a right to act on the official assurance of its members of the U.K. if sterling is not going to be devalued in the foreseeable future. Moreover, I would guess that the U.K. would not give permission to the Bank to invest at this time if it felt that an evaluation was imminent. The Central Banks of Europe do not hold an uncovered position in sterling but they are completely separate national entities. In addition, the sterling held by the Bank is available for use in disbursements in the future to make payments in the sterling area. In many senses any loss in case of evaluation would be a book-keeping loss.

Another possibility for the Bank if it so desired to purchase long-term securities with its sterling assets and hold on to them at least until such time as the additional earnings from the British securities, as compared with American, would offset any nominal loss from depreciation were it to take place. Perhaps other ways could also be thought of to protect further the position of the Bank if this is regarded as a critical danger and a decisive negative factor.

Another advantage of this action is that it could be done in such a way as not to show up as a drain on the U.S. balance of payments. Since for certain purposes the International Bank is regarded as a foreign holder of assets in the U.S. and a shift of such assets to the U.K. would be regarded as merely a change in foreign ownership of assets, rather than a change in U.S. liabilities or assets viz-a-viz foreign countries.

^{1/} Bank investment in the U.K. increased by \$13 million in calendar 1964.

Mr. George D. Woods

- 2 -
TELETYPE

February 4, 1965

Earlier in the year I had discussed this thought very briefly with Mr. Cavanaugh, and I had the impression that he would regard such a move as unwise. I have not raised it with him again. Yesterday when discussing some other matters with Mr. Coombs, including the position of sterling, I asked him on a most personal and confidential basis (we have been exchanging such personal thoughts for years without mishap) whether he thought that something like this at this time might be useful if it were feasible for the Bank to do so or compatible with other policies. He said he thought that it could be very useful. We are both concerned about the "funny money" ideas which are coming out of Europe, centered in the now so-called Ossala group, which is really a sub-committee of the Ten under the Chairmanship of Mr. Ossala of Italy. Further shocks to the international financial system might cause some of the more cautious and sober countries to clutch its straws and make serious errors. Helping to prevent a disruption of the international financial system would be a major contribution to the maintenance of a satisfactory flow of development finance.

If you think there is anything to the idea it could be discussed most discreetly with Mr. Stephens. From my past experience with Mr. Stephens I would have no hesitation about trusting his discretion.

Mr. Friedman

February 4, 1965

Bimal Jalan

House Hearings on Foreign Aid

1. I attended the hearings on the Foreign Aid Bill before the House Committee on Foreign Affairs this morning. Mr. Bell appeared before the Committee and submitted a prepared statement.

2. Apart from certain general questions, like the personnel problems of AID, relationship between the economic and military programs of the United States in Viet-Nam, the problem of encouraging self-help in under-developed countries and inducing private U.S. investment in these countries, etc., the following specific question regarding the activities of AID were raised:

(i) Why had AID continued giving aid to countries which have been noncooperative and at times belligerent, towards the U.S.? Mr. Bell said that there has been considerable exaggeration of the extent to which aid has gone to such countries; for example, no development loans have been made to Egypt or Indonesia for more than two years. AID has been pursuing a policy of diverting aid from such countries to more friendly ones.

(ii) Is this Bill in conflict with the present study of the outflow of gold? Mr. Bell explained that AID program hasn't been a substantial element in the balance of payments problem. 85% of AID aid is tied, and therefore, there is no significant outflow of dollars or gold on this account. The other 15% is in the form of some contributions to multilateral agencies and personnel expenditure abroad, which cannot be tied to supplies from the U.S.

(iii) Why wasn't Section 620(i) of Foreign Assistance Act which prohibits aid to nations engaged in aggressive action not applied in the case of the Congo or Egypt. Mr. Bell said that the decision as to what constituted "aggressive action" was a difficult legal problem; but promised a statement on this point, to be submitted to the Committee later.

3. I enclose a copy of the Bill, and Mr. Bell's statement to the Committee.

Attachments(2)

Mr. Gunter

February 4, 1965

Irving S. Friedman

UAR Mission

Mr. Gulhati has just reported to me on his experience in the United Arab Republic. I would like to express my thanks for the friendly and cooperative manner with which he was treated. I know that he greatly profited from being with you and I hope that his presence was of some help to the Fund mission also.

cc: Mr. Gulhati

Mr. Irving Friedman

February 4, 1965

John Hulley

The Interest Equalization Tax and the U.S. Balance of Payments

1. Advance reports on the U.S. balance of payments during the fourth quarter of 1964 suggest that the Interest Equalization Tax has had no effect, or possibly a negative one. The U.S. Executive Branch is reported to be canvassing supplementary measures and may recommend some to Congress within the next ten days.

2. The Department of Commerce is not yet prepared to release figures but the January 1965 issue of the Survey of Current Business (page 18) contains some general statements: the outflow of private capital in 1964 expanded greatly; lending by banks and non-financial concerns rose to record levels; direct investment abroad was higher than in all years except 1957; although new issues of foreign securities were smaller than in 1963, the fourth quarter outflows for new issues were larger than in the preceding three quarters combined; owners of foreign securities showed a greater tendency to hold them than they did a year ago.

3. The tax, which amounts to 15% on the purchase price of foreign securities at the time of acquisition by U.S. citizens, was approved September 2, 1964 (retroactive to mid-1963). At least ten of the private associations represented during Congressional hearings on the proposed tax predicted that it would increase the balance of payments deficit because it would undermine confidence. However, the Treasury has not yet had time to digest information received on its collections of this tax, and it is a little early to determine whether the effects have in fact been positive or negative.

4. In any case the President is reportedly going to send a message to Congress on the balance of payments within the next ten days. The message may include recommendations for further legislation. Measures which are said to be under consideration include:

- (a) favorable treatment for foreign investment in the U.S.;
- (b) a penalty tax on term bank loans to foreigners;
- (c) moral pressure on banks to curb short-term loans to foreigners;
- (d) similar pressure on corporations to curb direct investment abroad;
- (e) new efforts to trim military and aid expenditures abroad;
- (f) a tax on U.S. tourism abroad;
- (g) extension of the interest equalization tax.

Mr. Avramovic, Mr. Kamarck

February 4, 1965

Irving S. Friedman

ECOSOC

I would appreciate your checking of the attached. In the meantime I think a letter of acknowledgment should be written.

Attachment: Letter from Martin Hill, UN
and preliminary study Accelerated Flow
of Capital and Technical Assistance to
Developing Countries. (A/5732 Jan.1965)

DRAFT

MEMBERSHIP

The Departments represented on the Economic Committee will be: Economics Department, Area Departments, Projects Department and Development Services Department. The Directors of these Departments will determine who will represent their Departments at meetings of the Committee and so inform the Secretary of the Committee. Such representatives will be empowered to agree to decisions for their Departments and express the views of their Departments when requested by the Chairman. The Director of the EDI will also be a member of the Committee. The Chairman of the Committee will be Mr. Irving S. Friedman, The Economic Adviser to the President, and the Deputy-Chairman will be Mr. Andrew Kamarck, the Director of the Economics Department. The Secretariat shall be provided by the Secretary's Department.

DRAFT

OPERATIONAL MEMORANDUM

ECONOMIC COMMITTEE

2/2/65 ✓

Function

1. The main responsibility of the Economic Committee is to review Bank and IDA proposals with respect to economic operations and activities and to recommend to the President action to be taken thereon, where appropriate. Economic operations and activities include formulation of economic judgments and policies, the implementation of general economic policies in the other operations and activities of the Bank and IDA, research, and publication of economic and statistical material. The Economic Committee also ensures that high standards of economic performance are maintained in the economic work of the Bank and IDA.

Membership

2. The members of the Committee are Mr. Irving S. Friedman, The Economic Adviser to the President (Chairman), the Director of the Economics Department (Deputy Chairman), the Directors of the Projects and Area Departments, with their Economic Advisers as alternates, the Development Services Department, and the E.D.I. The Secretariat shall be provided by the Secretary's Department.

Attendance

3. The members of the Committee or their alternates and the Secretary of the Committee will attend all meetings. Temporary alternates may be designated by the Department Director in case of absence. The following Bank staff members may also attend: the General Counsel, the Special Advisers to the President, the Director for Special Economic Studies, the Treasurer, the Director of Information or his deputy, the economist members of the country working party or of sub-committees of the Economic Committee (for the part of the meeting during which their recommendations are being considered) and others invited by the Chairman.

Sub-Committees

4. The Economic Committee may delegate parts of its work to one or more sub-committees, as seems appropriate to the Chairman of the Committee, which will report to the Committee.

Subjects Considered

5. The Committee considers and reviews:

(a) All economic analyses and evaluations of country economies, development policies, programs, priorities, performance, and recommendations thereon; creditworthiness; appropriate Bank-IDA blend; commodity positions and prospects; sector and functional problems, etc. These analyses are intended to provide the framework of a general program for Bank/IDA activities in the country.

(b) All economic appraisals and reviews of area and regional problems and prospects.

(c) Bank and IDA proposals with respect to general economic policies.

6. The Chairman of the Committee decides, after receiving the recommendation of the representatives of the Departments concerned, whether the issues are of sufficient importance to justify calling a meeting of the full committee or whether they should be handled by a sub-committee or whether the papers are to be distributed to the Committee for comment only.

Meetings of the Full Committee

7. For a committee meeting to discuss items under para. 5 above, the papers are to be accompanied by a brief memorandum from the department or departments concerned setting forth the main problems, the main points to be considered, and the recommendations proposed.

8. The stencils of any memoranda required and necessary copies of supporting documents to be presented to the Secretary of the Committee in time for distribution at least three full working days before the date for which a meeting is scheduled.

9. The Secretary of the Committee, after consultation with the Chairman, is responsible for scheduling meetings of the Committee, distributing necessary papers to the members, and for preparing brief minutes of the significant points raised during discussion and of conclusions reached. After clearance by the members concerned, and approval by the Chairman, the minutes are distributed to the Committee.

10. To avoid unnecessary meetings the Chairman may decide to distribute papers for comment only, if they pose no issues that appear to require discussion by the Committee.

11. The stencils of any memoranda required and necessary copies of supporting documents are presented to the Secretary of the Committee in time for distribution at least three full working days before the date by which comments are requested.

2/2/65

DRAFT

OPERATIONAL MEMORANDUM

THE ECONOMICS DEPARTMENT

The Economics Department has the main responsibility for economic and statistical work in the Bank and IDA. Its functions are:

To do the functional, inter-sectoral and economic end-use studies necessary for a sound evaluation of country development efforts, progress, and policies. This includes studies in the fields of savings, investment and capital markets; factors governing the development of principal sectors; industrialization policies, methods and techniques; the economics of population growth, incentives and control policies; planning methods, policies and techniques; price, marketing and other policies of public corporations and authorities; tariffs and other protective policies designed to help economic development; fiscal and budgetary policies and techniques; regional integration and development; land tenure systems, customs and other institutional factors having a major influence on economic growth; appropriate external policies; economic impact of previous external assistance, including Bank/IDA; etc.

In collaboration with the area departments to make periodic and systematic analyses, at headquarters and in the field, of the economic development potential and policies of individual developing countries; to evaluate their development progress and efforts and make recommendations thereon; to assess their needs and ability to use capital; and through comparative studies and the other work of the department to build the necessary foundation for this work. If in the course of these activities improvements or changes in Bank and IDA policy appear desirable these will be duly reported and considered by the appropriate staff members and committees.

To do the basic research in the Bank and IDA on development processes, problems, policies, institutions and theory and on comparative analysis and evaluation of growth experience and policies in the developing countries.

To do the basic studies of the major internationally-traded commodities including supply and demand and preparation of price projections. To analyse international trade and capital movements relevant to economic development.

To cooperate with the Fund and other international organisations and aid agencies on research and other economic activities outlined above as may be appropriate.

To compile, prepare and publish statistics (in cooperation with the Fund and other international organisations) on major problems of interest to the Bank and IDA and its members, including movements of capital, capital markets, debt burden and debt service payments, commodity prices, trade.

To write, edit and publish papers and other material on development problems, policies, techniques for guidance of Bank/IDA staff, and the member countries of the Bank.

To help in the further training of economists throughout the Bank, e.g., through its studies, the organization of economic seminars at which distinguished economists from outside the Bank participate, organising special training sessions as necessary on new developments in economic theory and techniques.

The Director of the Department will be Deputy-Chairman of the Economic Committee.

The Economics Department will report to and work under the supervision of The Economic Adviser to the President.

The Economics Department will consist of a Director, Deputy Director, Economic Advisers, Statistician, Assistant Directors, Editor, and of the major divisions which may be necessary to carry out its functions.

February 2, 1965

Dear Professor Balassa:

Bob Triffin has written to me about a possible interest which you might have in helping us in the Bank. I guess Bob told you some of the things that I hope we will be doing in the field of international economics. We are determined to have the World Bank play its proper role on the theoretical and statistical aspects of its fields of responsibility as it has done in project financing. The President of the Bank is determined to strengthen the economic work of the Bank and I regard the prospects for success as most promising. We already have a suitable number of projects and problems awaiting more serious investigation and study.

I would be happy if you were to send to me a curriculum vitae or, if you prefer, to fill out the attached Bank form. In addition, if you would like to come down to Washington to discuss this with me and some of my colleagues we would be happy to pay expenses. If there are more questions, you might like to call me collect at the Bank - my phone number is DU 1 - 3665.

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

Attachment

Professor Bela Balassa
Yale University
37 Hillhouse Avenue
New Haven
Connecticut

cc: Mr. Eschenberg

Office of the Secretary

February 2, 1965

Irving S. Friedman

Copy of Mr. Schweitzer's speech.

It would be appreciated if you could obtain from the Fund
2 copies of Mr. Schweitzer's speech given before the Overseas
Bankers Club in London, datelined February 1.

2/1/65

DRAFT

OPERATIONAL MEMORANDUM

ECONOMIC COMMITTEE

Function

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Membership

2. The members of the Committee are Mr. Irving S. Friedman, The Economic Adviser to the President (Chairman), the Director of the Economics Department (Deputy Chairman), the Directors of the Projects and Area Departments, with their Economic Advisers as alternates, the Development Services Department, and the E.D.I. The Secretariat shall be provided by the Secretary's Department.

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of Information or his deputy, the economist members of the country working party or of sub-committees of the Economic Committee (for the part of the meeting during which their recommendations are being considered) and others invited by the Chairman.

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Mr. George D. Woods

February 1, 1965

Irving S. Friedman

Outcome of Fund's Quota Discussions

You may be interested in the following summary of the outcome of the Fund's quota discussions thus far, with particular reference to the so-called "problem of mitigation". You may also be interested in the last paragraph on the "German problem".

1. Primary mitigation

This refers to the impact on countries' balance of payments of having to provide gold in connection with increases in quotas. Countries which have balance of payments or reserve difficulties will be allowed to make special drawings from the Fund with which to obtain the necessary foreign exchange to purchase gold needed for their quota increases. Present ceilings on drawings will probably be lifted by these amounts and countries representations as to their needs are not expected to be challenged. Countries are to repurchase from the Fund the amount of these special drawings in five equal installments but if they have any difficulties they may use the regular 3 to 5 year repurchase provisions. Again it is expected that there will be no challenge to any country that claims difficulty in making annual installments.

2. Secondary mitigation

This refers to the problem of the approximately \$1,190 million in gold involved in the 25 per cent general and special quota increases.

(a) \$625 million will be paid by countries from their own gold reserves. This will be done by all the countries of the Ten, except the United Kingdom, Japan and Sweden. Such payments will also be made by Spain, Mexico, Venezuela and South Africa. This will leave \$565 million to be paid from countries that do not intend to use their own gold reserves. This is the size of the so-called "secondary loss problem". Of this \$565 million, agreement has been reached on how to handle \$500 million, with the impact of the remaining \$65 million presumably falling on the United States and the United Kingdom.

(b) With respect to the \$500 million the following has been agreed to avoid a drawing down of the U.S. and U.K. gold reserves:

(1) \$150 million by triangular replenishment. This simply means that countries make special drawings as described above, use the proceeds to buy gold from some country, for example, Germany. The gold is then paid to the Fund; the Fund then sells the gold back to the country in exchange for that country's national currency. In effect, the Fund gives up an increase of \$150 million in gold in exchange for an equivalent increase in holdings of creditor currencies.

(11) With respect to the remaining \$350 million this amount will be deposited by the IMF in the United States and United Kingdom. The proportion is more or less agreed at \$250 million in the United States and \$100 million in the United Kingdom. The Fund gets a demand deposit redeemable in gold, but at the same time the United States and the United Kingdom continue to count this gold as part of their own gold reserves. The U.S. and the U.K. will indicate that it is their policy to request the Fund to withdraw this deposit when their balance of payments permits. The Fund will declare that its general policy will be that if it has to use any gold in the future to obtain other currencies, it will use its "earmarked" gold and its gold on deposits in "appropriate proportions", which presumably means the existing proportion between "earmarked" gold and gold on deposits.

The French have indicated that they do not agree with the solution outlined above, but they are prepared to stand aside and let it go forward. It is not known whether they will choose to abstain when a formal decision is taken, or will go along with some comments for the record.

The special increases requested have been more or less agreed although there are a couple of cases, Mexico and Spain, which are still outstanding. Mexico would like to have a quota of \$300 million and Spain \$300-\$375 million, but it seems that the final figures will be \$270 million and \$250 million respectively.

Together with the special increases, the new quotas of the principle countries will be:

United States	\$5,160 million
United Kingdom	2,480 "
Germany	1,200 "
France	985 "
India	750 "
Canada	740 "
Japan	725 "
Italy	625 "
Netherlands	525 "

I gather that the possibility of Germany raising the issue of not having a similar special increase in the Bank is still alive and that some Executive Directors are now arguing that there is no rational basis for the tie-up between Fund quotas and Bank subscriptions. The point is made that Fund quotas are based upon a special Bretton Woods formula made for the Fund. Of course the issue is not whether the quota of all members should be the same in both institutions but rather their relative position in the Bank. I can say, as one of the two or three people who concocted the Fund quota formula, that it has very little to do with the Fund as well as with the Bank. It was an attempt to bring together some economic factors in such proportion as to justify a prior political position on magnitudes and relative position for principle countries.

ANNUAL REPORT

CHAPTER I : ECONOMIC BACKGROUND

Pages
1 - 2

A. General World Economic Situation
(very brief - one or two page summary)

B. Capital Flow

(1) Global Movements of Capital : (By principal categories
statistics only to the extent practical):

(a) Short-term private

(b) Short-term public

(c) Medium-term private

(d) Medium-term public

} includes supplier credits

(e) Long-term private

- (i) bonds
- (ii) bank loans
- (iii) direct investments

(f) Long-term public - bilateral

(g) Long-term public - international institutions

C. Developments of Special Interest in Capital Markets of
Creditor or Donor Countries:

United States

Canada (?)

United Kingdom

Netherlands (?)

Germany

Belgium (?)

France

Sweden (?)

Italy

Pages

D. Developments in Recipient Countries of Special Interest: (Not systematic review of countries - rather general developments affecting a number of countries)

6

- (a) Trade - levels, prices, etc.
- (b) Terms of trade
- (c) Domestic conditions
- (d) Capital movements
- (e) Change or developments in international arrangements ex: Common Market, Kennedy Round, new chapter in GATT.

E. Outlook

1 - 2

- (a) Need for capital by less developed countries
- (b) Capital availabilities
- (c) Problems in field of development finance requiring more attention in immediate future.

Mr. George D. Woods

February 1, 1965

Irving S. Friedman

U.S. Administration Fiscal Year 1966 Request

I believe you will find of interest the attached table summarizing the United States Administration's fiscal year 1966 request for economic and military assistance.

I would like to draw your attention to the fact that the total request is for about \$130 million more than the amount appropriated by Congress in Fiscal 1965 and therefor about \$120 million less than the President's request for fiscal year 1965. Of particular interest is the fact that the Congressional reduction in 1965 for development loans was carried forward into this year's Presidential request. On the other hand, the item on development loans under the Alliance for Progress has increased.

Attachment

DECLASSIFIED

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Personal

WBG ARCHIVES

February 1, 1965

Dear Bob:

Thank you very much for your letter of January 29. I appreciate the trouble to which you have gone in your inquiries. As for John Fei and Ned Phelps, if there is any change in their attitude I would be happy if they were to get in touch with me. I do think that we have some opportunities here for people to carry on systematic and serious work of which they could be very proud. Moreover, it is my intention to help facilitate that the work done by these people be published so that they can get proper recognition.

With regard to Bela Balassa I found your suggestion most interesting and am writing to him separately. Incidentally, how does he get along with people? Your judgment on this would be very helpful in deciding what kind of offer we should make to him. Do you have judgment as to whether he works best by himself or could also head up a group in his field?

Thanks again. With warm regards to yourself and Lois and the hope that you will both be visiting us soon,

Yours,

Irving S. Friedman

Professor Robert Triffin
Yale University
New Haven
Connecticut

ANNUAL REPORTCHAPTER I. ECONOMIC BACKGROUNDPages
1-2A. General World Economic Situation
(very brief - one or two page summary)

B. Capital Flows

(1) Global Movements of Capital: (by principal categories and statement why to the extent practical):

(a) Short-term private

(b) Short-term public

(c) Medium-term private

(d) Medium-term public

(e) Long-term private

(i) bonds

(ii) bank loans

(iii) direct investments

(f) Long-term public - bilateral

(g) Long-term public - international institutions

C. Development of Special Interest in Capital Markets of Creditor or Donor Countries:

United States

Canada (?)

United Kingdom

Netherlands (?)

Germany

Belgium (?)

France

Sweden (?)

Italy

D. Developments in Recipient Countries of Special Interest:
(Not systematic review of countries - rather general developments affecting a number of countries)

(a) Trade - levels, prices, etc.

(b) Terms of trade

(c) Domestic conditions

(d) Capital movements

(e) Change or developments in international arrangements ex:
Common Market, Kennedy Round; new chapter in GATT

E. Outlook

- (a) Need for capital by less developed countries.
- (b) Capital _____
- (c) Problem requiring more attention in immediate future.

Mr. Avramovic

February 1, 1965

Irving S. Friedman

The Economic Committee

Just a reminder - I would appreciate it if you would carry on with the Staff Economic Committee until we have agreed with Mr. Woods on the terms of reference of The Economic Committee and have established it. I hope this will be done during this week and that within two weeks or so the new Economic Committee will be functioning.

cc: Mr. Kamarck

Mr. Woods

February 1, 1965

Irving S. Friedman

Meeting with Mr. Thors

I believe you will be interested in reading the attached.
I am prepared to talk to you about this and the Machado Plan
at any time you wish.

Attachment

Mrs. Grafton

February 1, 1965

Irving S. Friedman

Mission Assignments in Peru and Venezuela

In reply to your memorandum of January 28 I regret that at this time both Miss McGregor and Mrs. Lowe would be unavailable for the proposed missions.

Mr. Friedman was Director of the Exchange Restrictions Department, International Monetary Fund, since 1951 and Chairman of the Fund's inter-departmental committee on consultations. Prior to 1951 he was Assistant for policy matters to the Deputy Managing Director. He began his career in the Fund in 1946 as a Chief of Division in the Research Department and before that had for some years played an important part in the U.S. Treasury in the preparatory work leading to the formulation of the Bank and the Fund as well as in the war-time and immediate post-war aid programs. Since October 1, 1964 Mr. Friedman has been The Economic Adviser to the President of the World Bank and the IDA. In this capacity he is generally responsible for the economic activities of the Bank including problems of development finance. He is a member of the Executive Committee of SID.

1/29/65

ASSIGNMENTS : JOHN HULLEY

1. Table on latest figures for U.S. balance of payments showing how big the current account surplus and how it is being used. (quickly)
2. Table on changes in external capital position of U.S.
3. Comment on the deficit in U.S. balance of payments to explain why there is a bias in statistical technique which tends to exaggerate the deficit (quickly)
4. A summary of the Host-Madsen papers on asymmetries between balance of payments surpluses and deficits.
5. Get from Cavanaugh memorandum on the impact of IDA disbursement.
6. Paper on the balance of payments impact of IDA up to now and an increase in IDA's resources, assuming a 60/40 split and assuming an increase from \$250 million to \$400 million in the U.S. contribution.
7. Statement on capital flight, particularly a table showing how big it is, down to whom and why.

(Stressed that above was for current urgent work)

Study on supplier credits

Divide study into three parts - one on supplier credits from developed countries, one from developing countries, and a third is the problem of external indebtedness. Planning to have Avramovic in charge of the longer-run problem of indebtedness, while Nespoulos-Neuville does the immediate problem of supplier credit studies for the UNCTAD.

We still have to find someone who would be in charge of problem of supplier credits for the developing countries.

Mr. Friedman

January 29, 1965

Bimal Jalan

Foreign Aid Distribution

1. On the basis of three tables on the distribution of official assistance from the DAC countries as a group and from the U.S. alone, Mr. Avramovic arrives at the conclusion that if one considers total official flow from DAC countries and from multilateral agencies as a group, the concentration is much less than in the case of the U.S.: the top 20 recipients accounted for less than 60 per cent of the committed financial assistance in 1963; 33 countries accounted for about 80 per cent of the total committed amounts in 1963.

2. I have compiled another table (Table 4) from the OECD data on the distribution of bilateral official aid (disbursed) among different regions and major recipient countries within each region for 1962. The table shows that 29 major recipients accounted for 83 per cent of total official aid in 1962 but also at the same time more than 80 per cent of the population of the underdeveloped areas.

3. Table 3 gives the percentage distribution of net inflow of long-term capital and official donations in developing countries. Taking 1960-62 average 15 countries accounted for 65.0 per cent of the total inflow into developing countries. Taking only the official donations, then 15 countries accounted for about 63 per cent of total for all developing countries. Population in these countries was about the same percentage of the total population of underdeveloped countries.

4. Tables 1 and 2 show the distribution of the flow of financial resources to developing countries, by source.

5. It seems to me that it is extremely difficult to come to any categorical judgment on this controversy regarding the concentration of assistance. It all depends on what "measure" of concentration one takes. If one takes the per capita distribution, the distribution of aid in the developing countries as a whole would seem to be extremely fair. But if one takes just the number of countries which receive a particular percentage of aid, it does seem that 60 per cent of such aid is concentrated among less than 20 per cent (or 15 to 20%) of the developing countries receiving assistance; and 80 per cent of aid is shared by about 30 countries.

Attachments

TABLE 1

Flow of Financial Resources to Underdeveloped Countries in 1962
(by source (Disbursements))

Total of Official Grants and Loans
(In millions of US dollars)

	<u>Including contributions to multilateral agencies</u>	<u>Excluding contributi to multilateral agencies</u>
Austria	13.8	5.3
Belgium	97.3	68.6
Canada	54.3	41.8
Denmark	8.3	1.6
France	995.4	879.2
Germany	449.8	377.4
Italy	109.9	77.8
Japan	168.1	160.9
Netherlands	86.1	42.0
Norway	7.0	1.2
Portugal	40.8	40.8
Sweden	18.6	3.1
Switzerland	4.9	2.2
United Kingdom	420.8	380.2
United States	<u>3,542.1</u>	<u>3,223.0</u>
Total:	6,016	5,375.1

Source: OECD

TABLE 2

Net official flow from North America, Western Europe and Japan and from multilateral agencies to developing countries, by source, 1960-62

	<u>Percentage Distribution</u>
United States	57
France	16
United Kingdom	7
Germany	6
Italy	1
Japan	3
Other countries	4
Multilateral agencies	<u>6</u>
Total:	100

Source: United Nations

TABLE 3

Developing countries : Net inflow of long-term capital and official donations, 1960-1962

	<u>Percentage Distribution</u>
India	12.6
Argentina	6.4
Puerto Rico	5.7
Brazil	4.9
Pakistan	4.7
Israel	4.6
Republic of Korea	4.0
Mexico	3.8
Indonesia	3.8
Republic of Viet-Nam	3.1
Nigeria	2.8
Chile	2.6
United Arab Republic	2.2
Ghana	1.9
China (Taiwan)	1.8
Total countries listed:	65.0
Other developing countries:	35.0
Total, all developing countries:	100.0

(Taking only the inflow of official donations with the above 15 countries in 1961, another UN table shows that these 15 countries accounted for \$3,198 million (or about 63 per cent) out of a total of \$4,900 of aid to all developing countries.)

Source: United Nations

TABLE 4

Distribution of Bilateral Official Aid among
Recipient Countries, 1962(In millions of U.S. dollars)

<u>Europe</u>	<u>Aid</u>	<u>Population (in millions)</u>
Total	<u>459.04</u>	<u>88</u>
of which:		
Yugoslavia	167.88	19
Turkey	220.03	29
Greece	35.73	

Total number of countries receiving aid: 5Africa

Total	<u>1,604.64</u>	<u>254</u>
of which:		
Algeria & Sahara	409.00	
Morocco	90.69	12
Tunisia	54.39	4
Egypt	179.72	17
Congo	65.25	15
Kenya	56.93	9
Tanganyika	46.50	10
Liberia	80.01	1
French Franc Area	355.97	39

Total number of countries receiving aid: 22
(U.K., French and Portuguese colonies counted as one country)Latin America

Total	<u>875.83</u>	<u>221</u>
of which:		
Mexico	39.83	37
Argentina	101.75	21
Bolivia	31.99	4
Brazil	193.46	75
Chile	128.53	8
Colombia	43.91	15
Venezuela	80.31	8

Total number of countries receiving aid: 19

	<u>Aid</u>	<u>Population (in millions)</u>
Asia		
Total	<u>2,152.66</u>	<u>892</u>
of which:		
Iran	51.85	21
Israel	108.16	2
Jordan	59.93	2
India	680.94	453
Pakistan	375.34	97
Formosa	82.32	11
Indonesia	110.65	98
South Korea	235.17	26
Thailand	37.79	28
South Viet-Nam	175.74	15

Total number of countries receiving aid: 26

Aggregate of percentages:

1. Total population of LDCs, 1962 - 1,459 million
2. Total official aid in 1962 - 5,072.17 million
3. Total number of specified countries receiving aid - 72
4. Number of major recipients in the table - 29
5. Percentage of aid accounted for by major recipients - 83% (approx)
6. Population in the major recipient countries as percentage of the total population of LDCs - above 80%

Source: OECD

DECLASSIFIED

AUG 16 2023

January 29, 1965

Personal

WBG ARCHIVES

Dear Gabriel:

I had meant to write to you sooner about my coming to Basle for the February meeting. However, I have been waiting for certain matters to clear up here before writing to you. Firstly, we have been heavily engaged in reorganizing the work of the Bank particularly in the economic field. Mr. Woods has more formally established my position on a vice-presidential level. I will continue to have a small high level group assisting me directly, but the Economic Department will now be reporting to me, and Andy Kamarck and Bob de Vries will be the two persons in charge of the Department, as Director and Deputy Director respectively. It is our intention to strengthen greatly the Department both in number of people and in responsibilities. The Department will not only be concerned with matters of research and analysis, but also economic policy. In addition, Woods has established an Economic Committee on the top level which will consist of the directors of various departments and others, with myself as Chairman and Kamarck as Deputy Chairman. The purpose of this Committee is to coordinate the economic activities of the Bank and to ensure that the general policies of the Bank are both applied in the day-to-day work and are re-examined and reformulated when necessary.

These changes represent a considerable addition to the original duties which I undertook in the Bank, but I rather hope that after the dust settles, I will still be able to spend most of my time on problems relating to development finance and advising the President. As I have said to him, I do not wish to leave my field which remains finance, and I do not wish to give up my primary responsibility of being his Adviser. I have taken on this additional responsibility of coordinating and supervising the economic work of the Bank because I feel, as well as Woods, that it will help to ensure the evolution of the Bank on to a broader basis and keep me in close contact with the day-to-day operational work of the Bank.

I had wished to come to Basle to have the opportunity to speak to people. Woods is eager for me to maintain my contacts with the leaders in the monetary and financial world. However, for your own information, I felt that it was not desirable for me to come until we had an answer to some of the questions and views which had been expressed to me in Europe last November, particularly by the Germans, the Dutch and the French. Because of preoccupation with other matters, including the recent U. S. bond issue, Woods has not been able to come to a conclusion on certain matters but I think he will during the coming weeks. Therefore, I am now planning, if agreeable to you, to try to come in March instead of February. However, if you feel that there are important reasons for my coming to the February meeting, please let me know, since I can always come at the last minute. I will not make any appointments for that weekend.

Mr. Gabriel Ferras

- 2 -

January 29, 1965

DECLASSIFIED

If by any chance you are coming here this Spring, please plan to stay with us since we would be most happy to have you and Helene.

With warmest regards,

Sincerely yours,

Irving S. Friedman

Mr. Gabriel Ferras
General Manager
Bank for International Settlements
Basle
Switzerland

ISF:pri



Record Removal Notice

File Title Irving S. Friedman - Chronological File - 1965 Correspondence - Volume 1		Barcode No. 1598694		
Document Date 1/29/1965	Document Type Letter			
Correspondents / Participants To: Ronald F. Jones, The Reserve Bank of Australia From: Irving S. Friedman				
Subject / Title Term Appointment				
Exception(s) Personal Information				
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			

1/29/65

Chairman of Economic Committee

General supervision of economic activities and operations

Special economic studies

Development finance

Fund-Bank collaboration

Mr. de Vries

January 28, 1965

Irving S. Friedman

Listing Loan Committee and Economic Committee Papers

I would appreciate if you could prepare for me today a list of the different kinds of papers which appear before the Loan Committee and, in the past, before the Economic Committee. Divide the list into three categories, those which would clearly fall within the new Economic Committee, those which would go before the Loan Committee clearly and those which would now be doubtful.

Mr. Graves

January 28, 1965

Irving S. Friedman

Press Release

If you feel that the newspapers will warrant some background information on myself, I would prefer that you let them have a copy of the October 1 press release.

Mr. Bimal Jalan

January 28, 1965

Irving S. Friedman

Foreign Aid Distribution

Mr. Woods seems to have a fixed idea that most of foreign aid is accounted for by relatively few countries, say 10 to 15. I believe that he gets this from some other people in the Bank who keep on saying the same thing. I have the impression that what they are really referring to is the distribution of U.S. aid and not world aid. This is rather important because it comes up in connection with consultative groups where, of course, the U.S. aid figure is only part of a whole. I therefore think that it is desirable to have a simple table which makes clear who contributes foreign aid and who gets it.

I believe that Gulhati has already done such a table for me in connection with the external aid requirements study. You might look at this and see if it can be improved.

I would appreciate your doing this today or tomorrow so I can send it to Mr. Woods on Monday.

Files

January 26, 1965

Irving S. Friedman

Visit by Mr. Thors

Mr. Thors, the Executive Director for the Scandinavian countries, called this morning to express some views on the possibility of the Bank using its guaranteeing authority. He said that he wondered how Mr. Woods might feel about a proposal that the Bank guarantee bonds by member countries in foreign capital markets, particularly the U.S. In the conversation it became clear that he was talking about Norway and that his thoughts had been occasioned by the recent proposal on differential interest rates and the Boards' discussion thereon. He said that he was particularly impressed with Mr. Woods's statement that Mr. Woods was prepared to consider the idea of the Bank acting as underwriter.

In the first instance he wondered what I thought about the idea. I referred to some of the early history of the Bank and the emphasis given then to the possibility of Bank guarantees, and noted that Mr. Woods had in recent days referred to this in various conversations. I felt that Mr. Woods was receptive to suggestions on how the Bank might become a more effective instrument for increasing on reasonable terms and conditions the flow of development funds. Moreover, I felt that Mr. Woods did feel that as much private capital as could be encouraged to do so, be part of this flow of development funds. However, since the Bank had not exercised its guarantee authority it would take careful consideration. It was necessary to keep this proposal distinct from the suggestion made by Mr. Machado although both involved the use of the Bank's guaranteeing authority. Mr. Thors agreed and seemed to be familiar with the Machado proposal.

I asked Mr. Thors whether his initiative was at the request of one of his countries or his own personal initiative. He said that it was purely a personal thought of his own which struck him as having some possible merit. He would be happy to speak to Mr. Woods about it if Mr. Woods had any sympathy for the idea; In the meantime he hoped that his initiative would be kept most private, and he on his part had no intention to express any views to anyone else, including his own Governors. On the other hand if Mr. Woods thought there was merit to the idea he was thinking that he would write to Governor Rufus in Norway. The Norwegians were anticipating their external needs. He noted that recently a Norwegian Company had borrowed \$25 million in Britain at 5-3/4%. He felt that the new interest rates of the Bank were high and that the use of the guarantee technique might prove to be a desirable alternate on borrowing from the World Bank at what Norway might well regard as very high rates of interest.

I promised to discuss this matter with Mr. Woods and to convey informally to him Mr. Woods's first reaction.

cc: Mr. George D. Woods

ISF:prl

Mr. George D. Woods

January 27, 1965

Irving S. Friedman

IDA Replenishment

I would like to share some thoughts with you on IDA replenishment. Incidentally, I am planning to come up with a "rationalization" in March or early April, unless you need it earlier.

I am aware of the discussions which have already been held and of the likelihood that the actual negotiations will proceed along the lines tentatively outlined in your talks with Mr. Dillon and others. I feel, however, that before starting down this road it would be desirable to make sure that it is the best one that can be taken. Among the facts which impress me are:

- (1) The fact that in the United States the amount of foreign aid is tending to level off. If this levelling off philosophy is perpetuated, it would mean that increases which might occur of a high priority character, such as economic support for military activities, would be offset by decreases in development assistance to countries in which the political and military objectives were of less immediate importance, even though they might well exist from the longer run viewpoint.
- (2) The fact that the President's Message to Congress embodied a reduction in the development assistance, which was made last year by the Congress. The German attitude on the special increase of the German quota in the Bank is also another recent sign of the rather reluctant attitude of governments in extending foreign assistance for development purposes, i.e., when the primary consideration is not political, military, or export promotion. Another indication is the fear on the part of the Germans (who say that the French agree with them) that our external aid requirements study is a prelude to further arm-twisting.
- (3) A large portion of foreign assistance today is in the form of PL.480. If the Director of the Budget, Mr. Kermit Gordon, has his way we may well see a decline in agricultural support prices. At the same time there has been a tendency for grain prices to rise. Were these two things to happen more or less simultaneously we might well find a drastic reduction in the surpluses available for the PL.480 program. If countries which are now largely dependent on PL.480 imports were to have to pay cash, would this not be at the expense of the monies made available for development? Is it prudent to envisage that the Congress would be prepared to add on in the form of foreign aid assistance sufficient cash to pay for food, and if not, would not food have a higher priority than capital imports or spare parts?
- (4) Congress has repeatedly indicated its unwillingness to legislate foreign aid except on an annual basis. The one exception has been the assistance granted through the multilateral agencies. To me this means that to the extent that the Congress and other legislatures decide to provide assistance through multilateral agencies, there is much more likelihood of the level of assistance being maintained. There are political arguments for the maintenance of multilateral assistance which simply do not exist for

bilateral programs. I regard this as particularly important at this time because of my concern that the level of national or bilateral assistance for development purposes is in a declining trend. I am concerned that even if we were to succeed in getting a substantial increase in IDA for the next five years, say 1966-1971, during the same period we might well see an even decrease in IDA type assistance on a bilateral basis.

(5) The experience of the Inter American Bank has been that proposals for very large increases in financial resources either directly or through the management of special funds, have received favorable responses. The Inter American Bank is a much bigger financial organization today than it was only three years ago. I think that this is in part due to their receptivity to new approaches, although I do appreciate that they were specially favored because of the support for the Alliance for Progress.

(6) The world's need for IDA type assistance is growing steadily. I hope that our study on external capital requirements will help demonstrate this need more convincingly than past presentations. If disbursements of IDA funds have not come up to expectations this might well be due to problems in the country and in the Bank. It is clear that a number of our Executive Directors believe that a basic reason is to be found in the Bank's procedures while others feel that there is a failure on the part of countries to expedite the projects which have been agreed or to come up with new projects which could be financed with available funds. However, I do agree that a telling argument against increasing IDA will be the low disbursement figures.

(7) The European countries are in a position to increase their foreign assistance programs. Moreover, they are also in a position to give more concessions in terms and some progress has been made in this regard during recent years. The United States is in a position to extend more aid and for reasons I would be happy to spell out elsewhere I believe that the tie with the so-called balance of payments problem is wrong. However, even if the balance of payments argument is dropped, I believe that every effort ought to be made not only to increase the amount of contributions from Europe, but to try to convince the principal European leaders of the desirability of increasing the role of multilateral institutions. It is for this reason that I heartily agree with the proposal for increased use of consultative groups. I see them as a way of putting foreign assistance on a multilateral basis in substance, even if in form, much or most of the aid is national or bilateral. I hope these groups would pave the way for the time when countries see the wisdom of simplifying international relations and procedures by putting more of their assistance directly through the multilateral institutions.

(8) The World Bank enjoys an enviable reputation in the field of development finance. I believe it is a safe guess that President Johnson would like to do something "new" in this field, as in others, which at the same time is cautious and sound. A transfer to the IDA of development loan funds now administered by AID would be new and it would be sound. It would also fit in with the notion of streamlining the government and reducing unnecessary budgetary expenditures. Other countries might well do likewise. I am ascertaining what items of foreign aid given by the European countries might fall into this category, namely assistance granted on terms similar to IDA.

Mr. Kamarck

January 27, 1965

Irving S. Friedman

Summary of IDA Disbursement

I would like to talk to you about the idea of having a memorandum which summarizes what has been done with IDA money including countries which have been the recipients, the purposes and disbursements and most particularly what has been happening during the current fiscal year.

Mr. George D. Woods

January 27, 1965

Irving S. Friedman

Consultative Groups

On the question of the diplomatic handling on the proposal for consultative groups I would like to make the following suggestions for your consideration:

(1) In choosing countries that are eligible more emphasis might well be given to whether the country concerned is one in which the U.S. assistance is of greatest importance and is a country for which the European countries recognize that the United States has a leadership role. In such cases -- and of course the Latin American countries are the most obvious examples -- it might be expected that if the United States were to favor a consultative group the Europeans would be least likely to oppose.

(2) Assuming that the above is done, the United States would be the advocate of consultative groups for these countries. In this advocacy the U.S. could point out that it was doing this in order to assist them in obtaining Congressional support for the foreign aid program and an implementation of President Johnson's Message to the Congress on foreign aid. This is the kind of argument which the Europeans understand.

(3) The World Bank role would then be essentially one of receptivity and willingness to take on the job when requested to do so by the principal donor or creditor countries. This receptivity could be expressed by the issuance of a staff paper on the subject.

(4) If it is a question of proposing countries in which the Europeans have the largest interest then I believe that negotiations with them, however informal, have to be on the highest levels and would inevitably involve questions of substance. The Europeans may well assume that the purpose of the consultative groups is to bring pressure on them to increase the amount of foreign aid and to soften its terms. Now that a general proposal is being made, any suggestion on a particular country will be looked at carefully for precedent making. They will want to know how much the Bank-IDA is willing to do and probably fairly precisely what may be accomplished by the use of a consultative group on a particular country that is not being accomplished by the present methods.

Files

January 26, 1965

Irving S. Friedman

Visit by Mr. Thors

Mr. Thors, the Executive Director for the Scandinavian countries called this morning to express some views on the possibility of the Bank using his guaranteeing authority. He said that he wondered how Mr. Woods might feel about a proposal that the Bank guarantee bonds by member countries in foreign capital markets, particularly the U.S. In the conversation it became clear that he was talking about Norway and that his thoughts had been occasioned by the recent proposal on differential interest rates and the Boards' decision thereon. He said he had the impression that Mr. Woods was favorably disposed to the idea of the Bank acting as underwriter. He wondered whether Mr. Woods might also be favorably disposed to the Bank using this authority.

In the first instance he wondered what I thought about the idea. I referred to some of the early history of the Bank and the emphasis given then to the possibility of Bank guarantees, and noted that Mr. Woods had in recent days referred to this in various discussions. I felt that Mr. Woods was receptive to suggestions on how the Bank might become a more effective instrument for increasing the flow of development funds. Moreover, I felt that Mr. Woods did feel that as much private capital as could be encouraged to do so, be part of this flow of development funds. However, since the Bank had not done this it would take careful consideration. It was necessary to keep this proposal distinct from the suggestion made by Mr. Machado although both involved the use of the Bank's guaranteeing authority. Mr. Thors agreed and seemed to be familiar with the Machado proposal.

I asked Mr. Thors whether his initiative was at the request of one of his countries or his own personal initiative. He said that it was purely a personal thought of his own which struck him as having some possible merit. He would be happy to speak to Mr. Woods about it if Mr. Woods had any sympathy for the idea. In the meantime he hoped that his initiative would be kept most private, and he on his part had no intention to express any views to anyone else, including his own Governors. On the other hand if Mr. Woods thought there was merit to the idea he was thinking that he would write to Governor Rufus in Norway. The Norwegians were anticipating their external needs. He noted that recently a Norwegian Company had borrowed \$25 million in Britain at 5-3/4%. He felt that the new interest rates of the Bank were high and that the use of the guarantee technique might prove to be a desirable alternate on borrowing from the World Bank at what Norway might well regard as very high rates of interest.

I promised to discuss this matter with Mr. Woods and to convey informally to him Mr. Woods's first reaction.

ISF:pr1

Files

January 27, 1965

Irving S. Friedman

IDA Replenishment

I asked ^AIsiah Frank today to prepare a memorandum for me on what facts he thought should be kept in mind in considering IDA replenishment.

ISF:prl

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AUG 16 2023

January 27, 1965

Personal

WBG ARCHIVES

Dear Eric:

I have been meaning to write to you for some time. As you may have heard I have recently gone over from the Fund to the Bank. I am sure you will appreciate how difficult the decision was for me. If nothing else, I have developed without thinking a sturdy tradition of not changing! I don't know now whether I have started a new tradition of frequent changes or whether, the Lord willing, I am in for another long stay. I guess only time will tell.

I have gone over to be The Economic Adviser to the President, with a combination of responsibilities, both executive and advisory. I had been attracted to the Bank by George Woods's desire to see the evolution of the Bank from its preoccupation with project lending to a more general concern with the problem of financing development. It should be most interesting and I am already swamped with work. Incidentally, I would appreciate very much if you could let me know privately when you think the discussions in Geneva are of such a character that we ought to be especially interested in them. I know that you keep close touch with Karasz and I hope he will continue to have these contacts. However, as in the past years, I hope that private communication between us may be able to develop a stronger relationship between our Institutions. I am still rather proud with what we accomplished in establishing closer relations between the GATT and the Fund.

One of these days I hope to be in Geneva and will take the opportunity of letting you know in advance. Needless to say, if you are in Washington I would be most happy to see you.

With warm regards to yourself and Tina.

Sincerely yours,

Irving S. Friedman

Mr. Eric Wyndham White
Executive Secretary
CONTRACTING PARTIES to the General
Agreement on Tariffs and Trade
Villa le Bocage
Palais des Nations
Geneva 10, Switzerland

Mr. Demuth

DECLASSIFIED

January 27, 1965

Irving S. Friedman

GATT

DECLASSIFIED

I see no particular reason for sending someone from here unless Karasz informs us that there is something special about this meeting.

Program for 1965 on Evolution of Bank

1. Obtain acceptance by countries with principal capital markets of regular annual approaches to markets by IBRD.
2. Prepare for periodic consultations with countries on their development programs, policies and need for external assistance and begin, if feasible. Efforts could be reported in Annual Report and President's address to the Governor's Conference.
3. Arrange for a number of additional consultative groups and improve mechanism of existing ones.
4. Agree on the kinds of material which the Bank would be prepared to make available in consultative groups and also at debt conferences. This would presumably be closely related to annual consultations.
5. Complete the report on supplementary financing for UNCTAD this summer including a proposal to the United Nations on this subject which will be a substantial modification of the original U. K.-Swedish proposal.
6. Complete by latter part of the year, the study and recommendations on supplier credits for UNCTAD.
7. Have a substantive economic chapter in the Annual Report of the Bank which would form the basis for a discussion at the Governor's Conference.
8. Obtain the personnel, particularly economic personnel, necessary to carry out the above jobs; bring them into the Bank and give them the necessary preliminary training so that by 1966 this work could go forward at full speed.
9. Take at least one major additional step in Bank/Fund collaboration, as, for example, the merger of the Statistical Services.
10. Prepare for IDA replenishment including rationalization for proposals made.

January 27, 1965

Directors of Area Departments

January 26, 1965

Irving S. Friedman

Capital Requirements Study

You will recall that agreement was reached with respect to the capital requirements study to have the flow of individual country studies begin to come in in January, and that we were aiming at a March 1 deadline for completing the submission of the first drafts.

I am very much concerned that the flow has not begun. I appreciate the difficulties of this assignment but would like to stress again that it is hoped that this assignment will be of considerable importance in the preparation for the IDA replenishment. The Bank's views on the IDA replenishment must be formulated in March and April and it is for this reason that the March 1 deadline was given. I would therefore appreciate whatever extra efforts are necessary to insure that our deadlines are kept. Your cooperation in this is most appreciated.

Directors of Area Departments

January 26, 1965

Irving S. Friedman

Debt Rescheduling

I think you will be interested in having a copy of a memorandum which I sent to Mr. Woods to which he has indicated his agreement.

Attachment

RECEIVED
January 26, 1965
HAG ARCHIVES

Dear Eli:

I have been somewhat remiss in replying promptly to your letter of January 15. For the moment I can't think of a good excuse. We are sending you, under separate cover, some material which I believe your class will find helpful.

I am looking forward to coming to Cambridge, but on the social side would appreciate if we could keep it open until we have had a chance to talk to the children.

With warm regards,

Sincerely yours,

Irving S. Friedman

Professor Eli Shapiro
Graduate School of Business Administration
Harvard University
Soldiers Field
Boston,
Mass.

DECLASSIFIED

Personal

AUG 16 2023

January 26, 1965

WBG ARCHIVES

Dear Governor Yamagiwa:

I was indeed sorry to learn that ill health had made it necessary for you to resign from the Bank of Japan. I would like to write a few words to you on this occasion.

As you know among my most satisfying experiences in professional life was the work that I had the opportunity to do with you. The role of the Governor of a central bank in a great country cannot be an easy one and is always a most important one. As you helped to teach me it requires a combination of high technical skills, together with a realistic appraisal of conditions, and an ability to persuade and lead others to take difficult decisions or to approve of decisions already taken. The defense of a country's currency is not a subject on which it is reasonable to expect wide public understanding. Furthermore, it involves from time to time the resolution of conflicting interests in such a way as to seem burdensome to others. The Head of the Central Bank must stand high in the esteem of the public at all times and command their respect. In a well managed country the public simply doesn't worry about its' money or currency because the sensitive and complex job of safeguarding it is being quietly well done. These are only a few of the qualities which you manifested as Governor of the Bank of Japan. As a result of our association I learned much that was valuable, in addition to what I learned about the Japanese monetary system.

I would like to express my thanks to you and the hope that I will continue to have the honor and the pleasure of talking to you from time to time.

With best wishes for your health and warmest regards.

Sincerely yours,

Irving S. Friedman

Governor Masamichi Yamagiwa
2 - 723 Den-en-cho-fu
Tamagawa
Setagaya-Ku
Tokyo

MAILED
January 26, 1965

100-1-100-100

Dear Professor Smith:

You may recall that during a brief visit to Middleberry last Fall, I had the pleasure of meeting the various members of your Economic Faculty. At the time there was an interest shown in having some of the speeches made by the President of the Bank, particularly that made to the United Nations Trade Conference last Spring. I am enclosing some copies of this speech together with the Summary Proceedings of the Bank which I believe you will find of interest.

I must apologise for not sending the material sooner but I have been simply swamped by my new duties in the Bank and also had to be abroad for sometime.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Professor D. K. Smith
Chairman
Department of Economics
Middleberry College
Vermont

Mr. Graves

January 26, 1965

Irving S. Friedman

Material on loans and credits

Thank you for the material on World Bank loans and credits. Would it be possible to have a list of countries indicating new loans or IDA credits made in 1962/63, 1963/64, and 1964/65, showing each year separately, and also separating loans from credits. It would be my intention to group this regionally so I would be happy to receive it this way if you already have it regionally.

January 26, 1965

Dear Arthur:

Thank you for your letter of January 15 enclosing the DAC secretariat Note on Gap Projections and the Identification of Long-Term Problems of the Debt. I have passed the extra copy on to Drag.

We have also received your letter of January 19 giving your report on the January 27-28 meeting on the Chilean negotiations.

Your letter and enclosure of January 20, Guidelines for Coordination of UNCTAD Issues I have passed on to Mr. Woods as he will undoubtedly find it of interest.

With warm regards,

Sincerely yours,

Irving S. Friedman

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

Mr. George D. Woods

January 26, 1965

Irving S. Friedman

Letter from Mr. Karasz

I believe you will find of interest the attached letter and enclosure from Mr. Karasz, although it says nothing surprising.

As you have said, this sort of thing strengthens the case for the Bank, becoming the form or bridge between the two groups and not merely a service organization to both groups separately.

Attachment

Karasz letter of January 20 enclosing OECD note (DAC/UN(64)1) on Guidelines for Coordination of UNCTAD Issues - purpose to establish the basis for cooperation among DAC members. Tendency for DAC to become a bloc becoming clear for "have-not" nations and opposition represented by Prebisch group.

January 26, 1965

Dear Mr. Abbai:

I am writing to you at the suggestion of Mr. Dudley Seers. He has said that your knowledge and experience might be quite valuable to us in some of the work we are doing in the World Bank.

If you would like, the Bank would be happy to have you come down and spend a day or two with us, at the Bank's expense of course, and discuss some of these matters of possible mutual interest.

Hoping to hear from you,

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. Belai Abbai
Center for International Affairs
Harvard University
210 Littauer Center
Cambridge 38
Massachusetts

cc: Mr. Eschenberg

January 26, 1965

Dear Alex:

I have just received your letter of January 22 and am sure I will find the attachments most interesting.

Thanks for keeping me in mind.

With warm regards,

Sincerely yours,

Irving S. Friedman

Mr. A.N. McLeod
Department of Economic Research
The Toronto-Dominion Bank
Toronto
Canada

Mr. Avramovic

January 26, 1965

Irving S. Friedman

Implementation of Economic "End-Use" Study Recommended in Nurick Report

Thank you for your memorandum of January 19 on implementation of economic "end-use" study recommended in Nurick Report. I have found your comments most interesting. As I may have expressed to you on other occasions, I have been rather surprised to find how little the Bank has done to consider the economic effects of its loan projects after completion.

I appreciate the problem of "age" but still feel that a beginning ought to be made. In my own thinking I have regarded this as one of the arguments for periodic and systematic consultations with countries through which the Bank would develop its own appraisal of the economic effects of completed projects as well as other aspects. I am not sure how this would fit in with the notion of a pilot study but thought that you might be interested in having this first reaction to your memo before having the discussion which you suggested.

Would you ask Mr. Larsen whether he has any views on this. After Mr. Kamarck gets back perhaps the four of us can talk about this since it involves a projected study for the Economics Department.

Mr. Chauffournier

January 22, 1965

Irving S. Friedman

Chilean Debt Rescheduling

Mr. Woods has expressed his agreement with the viewpoint presented in the attached memorandum. In our telephone conversation I informed Mr. Finch of our view that the Fund representatives to these countries, after the meetings in Paris, would speak on behalf of both the Bank and the Fund making it clear that this was being done at the Bank's request and agreement and that the information obtained would be then made available to both institutions for use in their preparatory work.

Attachment

Mr. George D. Woods (through Mr. Alter)

January 21, 1965

Irving S. Friedman

Chilean Debt Rescheduling

I am attaching hereto a memorandum summarizing a meeting held with the Fund staff on Chilean indebtedness. The Bank staff in its discussions with the Fund have been guided by the attitudes which you have recently expressed on the Bank's role in debt renegotiation. It is essentially that we are prepared to be helpful when the creditors and debtor countries wish us to do so and this can be done without embarrassment to the Bank. Messrs. Alter, Chauffournier, Nespoulous-Neuville and myself have discussed this matter further and would like to make the following recommendation to you:

The Fund staff should be told that the Bank suggests that at this stage the Fund and the Bank people attending the first meeting on Chile debt in Paris on January 27 should, if they find the atmosphere favorable, together sound out the principal European representatives whether their countries would welcome an informal visit of Fund and Bank staff to ascertain what kind of technical role the Fund and Bank could play in assisting the major European creditors. They would report the reactions to their respective managements. This would give you a chance to consider the matter again after the staff returns from Paris and reports. The second debt meeting on Chile is likely to be towards the end of February.

The Fund staff proposal would only be logical if the Bank did not provide any technical assistance in these discussions, but as a matter of fact it does, and the Chileans as well as the others are eager to have the Bank do so. I do not think that the Europeans would regard joint work by the two institutions on technical matters resulting in excessive pressures, since we are not trying to advocate any kind of policy or any particular role for the institutions. We are only trying to find out how we can be helpful to the creditors. The suggested Fund approach could lead to confusion.

If you agree, this view would be conveyed to the Fund staff by Mr. Alter.

Attachment

cc: Mr. Chauffournier
Mr. Nespoulous-Neuville

OPERATIONAL MEMORANDUM - ECONOMIC COMMITTEE

Function

1. The main function of the Economic Committee is to review Bank and IDA proposals with respect to economic operations and to consider action to be taken. Economic operations include formulation of general economic policies, the implementation of the other operations of the Bank and IDA, research and publications of economic and statistical material. The Economic Committee also ensures that high standards of economic performance are maintained in the economic work of the Bank and IDA. In this way the Economic Committee is to assist the President and the Senior Staff Meetings in their consideration of major policy issues.

Membership

2. The members of the Committee are Mr. Irving S. Friedman, The Economic Adviser to the President, (Chairman), Mr. Andrew Kamarck, (Deputy-Chairman), Director of the E.D.I., The Directors of the Area Departments, with their Economic Advisers as alternates, the Director of the Projects Economic Departments, the Development Services Department. The Secretariat shall be provided by the Economic Department.

Attendance

3. The members of the Committee or their alternates and the Secretary of the Committee will attend all meetings. Temporary alternates may be designated by the Department Director in case of absence. The following Bank staff members may also attend: The Director for Special Economic Studies, The Director of Information or his deputy, the economist members of the country working party or of sub-committees of the Economic Committee (for the part of the meeting during which their recommendations are being considered) and others invited

by the Chairman.

Sub-Committees

4. The Economic Committee may delegate parts of its studies to one or more sub-committees, as seems appropriate to the Chairman of the Committee, which will report to the Committee.

Subjects Considered

5. The Committee considers and reviews:

- (a) All economic analyses and evaluations of country economies, development policies, programs and priorities, and recommendations thereon; creditworthiness; commodity positions and prospects; sector and functional problems etc. These analyses are intended to provide the framework of a general program for Bank/IDA activities in the country.
- (b) All economic appraisals and reviews of area and regional problems and prospects.
- (c) Bank and IDA proposals with respect to general economic policies and to consider action to be taken.

6. The Chairman of the Committee decides, after receiving the recommendation of the representative of the Department concerned, whether the issues are of sufficient importance to justify calling a meeting of the full committee or whether they should be handled by a sub-committee or whether the papers are to be distributed to the Committee for comment only.

Meetings of the Full Committee

7. For a committee meeting to discuss items under para. 5 above, the papers are to be accompanied by a brief memorandum from the department or departments concerned setting forth the main problems, the main points to be considered, and the recommendations proposed.

8. The stencils of any memoranda required and necessary copies of supporting documents to be presented to the Secretary of the Committee in time for distribution at least three full working days before the date for which a meeting is scheduled.

9. The Secretary of the Committee, after consultation with the Chairman, is responsible for scheduling meetings of the Committee, distributing necessary papers to the members, and for preparing brief minutes of the significant points raised during discussion and of conclusions reached. After clearance by the members concerned, and approval by the Chairman, the minutes are distributed to the Committee.

10. To avoid unnecessary meetings the Chairman may decide to distribute papers for comment only, if they pose no issues that appear to require discussion by the Committee.

11. The stencils of any memoranda required and necessary copies of supporting documents are presented to the Secretary of the Committee in time for distribution at least three full working days before the date by which comments are requested.

Mr. George D. Woods

January 21, 1965

Irving S. Friedman

Debt Rescheduling

In connection with the questions that have been raised on Chile and other countries on debt rescheduling, our representatives might well be asked at various meetings in the IMF, Paris, and elsewhere, what is the Bank's general attitude? Pending further consideration of the matter I would suggest that they be guided by your statement to the UN Trade Conference, which is more explicit and detailed than the material contained in your Tokyo speech. For your convenience I am attaching the excerpt from your speech to which I refer, and particularly draw your attention to the last sentence. The statement emphasizes the need for an agreement among all parties concerned and the need to take steps to avoid the re-emergence of the problem.

Excerpt from speech given to United Nations Conference on Trade and Development
Geneva, March 25, 1964 : Mr. George D. Woods

"A few countries are now caught in an acute cash squeeze which may require special action by their creditors. Others may find themselves in the same position unless both they and their creditors use greater discretion in connection with offering and accepting future short-term credits. This kind of difficulty cannot be removed simply by a debt reorganization unless that reorganization is accompanied by appropriate and effective agreements:

On the part of the debtor country, to take all measures within its capacity to bring its balance of payments under control and to meet its obligations as they fall due;

On the part of the creditors, to provide the debtor with capital on long term to meet legitimate development need;
and,

On the part of both debtor and creditors, to avoid, in the future, the kind of short-term credit transactions which caused the trouble in the first place.

Let me add that, where all parties concerned are willing to agree to appropriate disciplines in connection with a debt adjustment, they will find the Bank ready to consider adapting its own financing to the necessities of the situation and to assist, when requested to do so, in working out the required new financial regime."

January 21, 1965

Dear Arthur:

Thank you for your letter of January 18, 1965, and the enclosures on the January 12 and 13 meeting held by the DAC Everts Working Party. We are looking into the two matters raised and will be in further touch with you.

Yours sincerely,

Irving S. Friedman

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

Mr. George D. Woods

January 21, 1965

Irving S. Friedman

Letter from Mr. Karasz

I think you will find of interest the attached letter and enclosures from Mr. Karasz. It raises a number of points which will be discussed with the interested Departments, particularly the Economic Department. I draw your attention to the top of page 2 which indicates again that the Fund seems to be rather eager, at least on the staff level, in becoming part of the machinery preventing the emergence or re-emergence of short-term debt problems. We will continue to be in touch with the Fund on this matter.

I am still appalled at the number of international institutions that try to do the same thing. For example, at the moment serious work is going forward on supplier credits not only in the Berne Union and at Basle but also the OECD, the DAC, the UN Economic Secretariat, and I would be surprised if the Prebisch group does not get into the act. We, of course, are also going ahead with what we were asked to do by UNCTAD. I gather the IMF also regards itself as in this picture. I would think that at some moment a meeting at the very highest level might be desirable to eliminate as much as possible this nonsensical over-lapping.

The next meeting of Mr. Everts' Working Party is scheduled for February 25 and 26. In view of the Agenda we may wish to send someone from the staff in Washington to this meeting. We did not send anyone to the meeting on January 12 and 13 on the advice of Mr. Karasz but we were in close telephone communication with each other on the substantive matters being discussed by the Committee.

Attachment

January 19, 1965

Dear Arthur:

In looking over your letters I am not sure that I have answered your letter of January 5. I believe that I need say nothing further on the study on supplier credits.

With respect to the UNCTAD Resolution on Growth and Aid I believe you probably have seen my memorandum of December 21, a copy of which was sent to the Paris Office. Just in case it went astray I am enclosing another copy for your use. In your letter you say that the DAC would like the IBRD to be "the competent international body". I gather that this is the view of the British and the Americans -- have others expressed themselves on this subject? This would be helpful in our further work here on the matter.

With kind regards,

Yours sincerely,

Irving S. Friedman

Attachment

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

January 19, 1965

Mr. Woods:

Attached hereto is the draft speech for the Society of International Development. I thought it might be better to give you a first draft rather than try to polish something which may not be on the right track at all.

Mr. Lejeune

January 19, 1965

Irving S. Friedman

Interview with Mr. Robert L. Beukenkamp

I interviewed Mr. Beukenkamp at the request of Mr. Lieftinck. He is a fairly impressive person but one that I would guess is best suited to operations work or Projects Department. He does not regard himself as a professional economist, particularly not a research economist.

Attachments (2)

Mr. George D. Woods through Mr. R. Demuth

January 18, 1965

Irving S. Friedman

Horowitz Proposal

Mr. Karasz telephoned me from Paris to say that Mr. Elson, the German Chairman of the DAC working party of the UNCTAD, had requested ten copies of the Horowitz Proposal for distribution to his working party. They are meeting on February 9 and 10, and Mr. Elson said that he would like to have the Horowitz Proposal discussed at that time.

Since the Executive Directors have already had a chance to forward copies of the Horowitz Proposal to their Government, I presume that we would have no objection to this distribution to the DAC working party on the UNCTAD. I promised Mr. Karasz that we would have an answer for him on this today or tomorrow.

ISF:prl

Mr. Horst Eschenberg

January 18, 1965

Irving S. Friedman

Belai Abbai

Do we have a file on an Ethiopian by the name of Belai Abbai? He is now at the Center for International Studies at Harvard, which I believe is under Dean Mason or has been under Dean Mason. He is highly recommended by Dudley Seers, and if he is as good as he says his experience would be very valuable to us in one capacity or another - perhaps as Consultant in our study on external capital requirements. If you have no file could you give me the exact name and address of that Center and I will contact him either by telephone or letter.

Jan. 18, 1965

IDA Replenishment - Ideas

1. On the 40% problem and the impact of the IBRD contribution to IDA on this problem, what about considering the IBRD contribution as a special contribution like Swedens. I gather that the special contributions do not affect voting rights.

2. Would it be feasible for national governmental agencies earning income from past governmental loans to Part 11 countries to give such earnings as special contribution to IDA, or perhaps as a way of financing or rationalizing an increase in IDA contribution. In this way IDA could be increasing without seeming to require the raising of "new" money. It would also clarify and dramatize the problem that one of the reasons for the need to have a larger IDA is the increasing repayments in servicing the governments by the LDC's. In this connection see the U.K., French, German and U.S. foreign aid program, to see whether this is true.

3. Increase IDA by more shifting of existing foreign aid assistance from national to international agencies. This would seemingly involve knowing what other present national program is fairly similar to the IDA in purpose and terms. It would also be easier if the items transferred were of things now still untied. It would also be possible to transfer part of an item instead of a whole one, or perhaps parts of different items. If this raises the problem of weighted voting perhaps it could be regarded as special contribution not affecting voting. Some may feel that even with such switches there should be some "real" increase, i.e. representing additions to the total foreign assistance program of any country, but this is not really essential to the suggestion. This thought has already been expressed to Mr. Woods by me orally and various memorandums, and discussed with Isiah Frank.

Frank is flying a kite on his own representing an idea for special transfer by name of the development loan fund activities of the U. S. Government to the Bank family in a coming issue of the new Republic.

4. Create reserves for LDC's from IBRD earnings from the LDC's. Could be done through creation of a special fund, or financing of the supplementary financing proposal, or by making loans to the IMF.

Director of Administration, IMF

January 18, 1965

Irving S. Friedman

Annual Leave

I would appreciate if you would advise me how many days
of annual leave I lost while in the International Monetary
Fund.

Dear Mr. Hill,

I read with interest your letter of January 8, 1965 (Reference EC 121(16)) regarding the study on inflation and economic development. This subject is a matter of great interest to the Bank, and a problem that we have encountered in many countries. However, it would not be feasible for us to contribute our views and experience on this broad subject by March or April 1965 in view of the other undertakings for the United Nations and the pressure of the regular work of the Bank.

I am pleased that you have sent us a copy of the questionnaire which has been circulated to governments and will be interested in seeing the replies if they are available.

We would appreciate you keeping us informed on the progress made on this matter and if at any time it proves feasible for us to put our views together for your purposes, we will do so.

Yours sincerely,

George D. Woods

Mr. Martin Hill
Personal Representative of the Secretary-General
to the Specialized Agencies
United Nations
New York, N.Y.

Irving S. Friedman/dm
1/18/65

*Retyped by D. Gordon's office
signed by MR. about Jan. 22*

cc: Mr. Consolo

EXECUTIVE DIRECTORS LUNCHEON
Tuesday, January 19, 1965

INTRODUCTION OF DR. RAUL PREBISCH

I have already welcomed Dr. Prebisch to the Bank and I know that I speak for all of us in saying that we regard it as a privilege to have him here with us and are looking forward to hearing what he has to tell us.

Dr. Prebisch has a worldwide reputation. Fortunately for his public relations he has always been a man who managed to be both a controversial and well-liked figure. In the Central Bank of Argentina he introduced a number of monetary innovations which earned him a reputation as an expert on foreign exchange problems.

In 1948 he became Executive Secretary of the newly formed United Nations Economic Commission for Latin America, more popularly known as ECLA. Under his leadership ECLA became a center for continuing concern with the difficult problems

of development and source of suggestions of how such problems might be dealt with.

From time to time Dr. Prebisch made proposals which did not receive complete concurrence by all of the United Nations. However, at all times even those who have disagreed with him have recognized that his was the voice of a person who had dedicated his entire life to promoting the welfare of the entire world and particularly those in the less developed countries. It was not surprising, therefore, when the United Nations Conference on Trade and Development was called, countries throughout the world felt that he would be the suitable person to be Secretary General. Much was accomplished at this Conference, especially in bringing together the developing countries and finding a consensus of views among them. This success was very largely the work of Dr. Prebisch. He combines the experience of a central banker,

the knowledge of an economist, with the persuasiveness of an orator.

Among Dr. Prebisch's feats of persuasiveness was to get the World Bank to take over a number of the studies resulting from the UNCTAD Conference. We are pleased to cooperate with him and his colleagues in this work and pleased to have him with us even if it is for a very short time.

Irving S. Friedman
January 18, 1965

Draft SSM Minute (Jan.13)

ISFriedman:1/15/65

Please add:

* Mr. Seers and Mr. Marris had been assured that the Bank was eager to be of the utmost feasible help and welcomed the closest collaboration with the new Ministry.

Mr. George D. Woods

January 14, 1965

Irving S. Friedman

Debt Rescheduling

I am attaching hereto a memorandum received from Mr. Karasz on debt consolidations as carried out in recent Paris and Hague Club meetings. I believe you will find the material interesting - if nothing else it indicates the complexities involved in these debt rescheduling operations.

This memorandum is primarily designed to bring to your attention the first paragraph in Karasz' note. In this paragraph he gives the essential points of the UNCTAD Resolution dealing with external indebtedness and the need for rescheduling or consolidation of debt. This Resolution reflects the viewpoint that international financial institutions should be prepared to review the external indebtedness of developing countries with a view to securing agreement on re-scheduling or consolidation of debt. The question arises then as to why the Europeans wish to take a lead in the debt conferences with respect to Chile.

An investigation of the record indicates that the Resolution was passed unanimously but that 11 countries abstained. Unlike other cases of abstentions the countries which abstained are not listed as a footnote to the Resolution. After enquiries we have learnt that the debt service proposal was originally sponsored by Nigeria, the UAR and Yugoslavia. Abstentions were, Belgium, Cuba, Italy and the Soviet Bloc with the exception of Rumania which voted for the proposal. France was registered as having voted for the Resolution but this vote was actually a mistake. The chief French delegate had left the room when the vote came up. Some minor French official got confused and voted for the Resolution and later attempts to have the vote changed failed! In the discussions before the vote the French indicated that they disapprove of the procedure essentially because they did not want international institutions to take such responsibilities in the field of rescheduling or consolidation of debt. Belgium and Italy made no statements but it is believed that they probably abstained for the same reasons. The Soviet Bloc countries disclaimed responsibility for any debt service problem that developing countries may have and in any case generally abstained on all resolutions where the Bank and IDA were involved.

Therefore the French reaction in the Chilean case was not surprising although the above does not explain by itself the support received from other European countries. However, in a recent period there have been many cases where a stubborn French decision in international finances resulted in other European countries coming around to their point of view. However, the fact does remain that this Resolution was adopted by 109 votes to none. Thus the Chilean attitude in suggesting that the Bank take a leading role was very much in line with this recent expression of international opinion.

cc: Messrs. Knapp, Alter, Avramovic, Demuth.

Mr. Sciolli

January 14, 1965

Irving S. Friedman

Financing of Latin American Exports of Basic Products

You may find this helpful in connection with the work which you are doing on supplementary financing. I have not read it myself so would appreciate your returning it as soon as possible.

Attachment

Mr. Werner Schick

January 14, 1965

Irving S. Friedman

Study of Industrial Countries' Capital Export Potential

Thanks for your memorandum of January 7. I will be interested in having your note on the purpose and methods of the study which we discussed. Please let me have it as soon as possible.

In the meantime you will be interested to know that I have mentioned to the Administration Department that I would like to have you stay on your present assignment until it is completed.

cc: Mr. Eschenberg

Excerpt from Schick's memo of January 7: "I was informed by the Administration Department that under the Junior Professional Program I am due for a change in my assignment at the end of April. This reinforced my intention to proceed in a pragmatic way beginning with case studies rather than trying to find a theoretic concept first."

January 13, 1965

Dear Arthur:

During your visit here in December, you asked for information on the IDB program for financing inter-American exports of capital goods. Thus far we have been concentrating mainly on sorting out questions relating to suppliers' credits from the more developed countries. However, the following brief notes on the current status of the IDB program may be helpful. I am also enclosing a mimeographed IDB paper on the subject. Some more general material on the operations of the IDB has been sent to you under separate cover.

The program has been in effect since the spring of 1964. The initial allocation from capital resources was \$30 million. Against this a total of \$11 million has been extended as lines of credit to four countries: \$3 million each to Argentina, Brazil and Mexico, and \$2 million to Chile. Our understanding is that disbursements so far total about \$250,000.

It is early to draw conclusions; however, some tentative observations have been furnished by members of the IDB staff:

- (a) The allocation of \$30 million does not restrict the rate of lending. Operations have not reached this level. If they do, the IDB can either sell participations or raise the ceiling.
- (b) The success of the program depends to a large extent on local conditions. At one extreme, the Mexican agency had already proved its effectiveness before the initiation of the IDB program, so that the result of the latter is in large part simply the provision of an addition to Mexico's foreign exchange. At the other extreme, the currency valuation problems of Brazil are now so acute that the export credit system there can do little to increase the flow. In between are countries like Argentina where it is believed that IDB may prove to be of real assistance.
- (c) The number of countries which can be helped is limited by the restriction of the program to supporting exports of capital goods and their components. In a study entitled "Financing of Latin American Exports of Basic Products" (March 1964), IDB examined the possibility of broadening the program to cover primary products as well. A general conclusion of the study is that the problems arising from price fluctuations dwarf the problems of financing. (A copy of the study has been forwarded to you). Manufactures present another possible field for expansion.

January 13, 1965

- (d) The IDB is now examining the possibility of establishing some system of export credit insurance for Latin America, and will present a study on this question in April. Export credit insurance is complicated in organization. A recent proposal concerning Argentina involved more than 60 companies. The relation between international, regional and local insurance companies is also involved (see UNCTAD Final Act, Annex A.IV.23). In consequence it is thought that it may take relatively long to make any substantial progress in this area.

Sincerely yours,

Irving S. Friedman

Mr. Arthur Karasz
International Bank for Reconstruction
and Development
4 Avenue d'lena
Paris 16
France

JCH:ISF:prl

Copies: Messrs. Frank
Hulley
Nespoulos-Neuville

January 12, 1965

Dear Mr. Phuah Kim Chuan:

Thank you for your reference to my book on Foreign Exchange Control. It was published by Centro de Estudios Monetarios Latinoamericanos, Mexico City. I don't know whether or not there are any more copies available, but you may wish to write to them.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. Phuah Kim Chuan
Exchange Control Department
Central Bank of Malaysia
Kuala Lumpur
Malaysia

ISF:prl

January 12, 1965

Dear Arthur:

This is to acknowledge receipt of your letters of January 6 and 8. Your comments were most useful and I am sure we will be corresponding further on these matters.

Sincerely yours,

Irving S. Friedman

Mr. Arthur Karasz
International Bank for Reconstruction
and Development
4 Avenue d'Iena
Paris 16
France

ISF:pr1

Mr. Nespoulous-Neuville

January 12, 1965

Irving S. Friedman

Rescheduling of Debts

You will find of interest the attached note from Mr. Karasz. Please return it quickly as I would like to send it to Mr. Woods.

You will note his reference to Resolution A.IV.5 on debt service. The UNCTAD adopted this Resolution 109 votes to none with 11 abstentions. Could you find out the names of those who abstained?

I would like to discuss with you the European reaction to the Chilean proposal of Bank leadership on debt rescheduling in view of this resolution.

ISF:pr1
Attachment

Some comments on Mr. Frank's article

Mr. Frank's suggestion that the U.S. should offer to turn over to the IDA the development loan funds, now administered by AID, is of interest. It seems to me, however, that the grounds on which this suggestion is based are not valid.

1. This is exactly what Senator Monroney had in mind--a transfer of DLF funds to IDA--when he first proposed the Association. This suggestion was squashed before the proposal got to the floor of the Congress, because (i) the belief that "there was no advantage at all in the multilateral aid over unilateral" (Secretary Dillon and Senator Capehart); (ii) DLF was an instrument of US-foreign policy, and it was undesirable to decrease its effectiveness.

Any case for shifting emphasis on multilateral channels of aid from bilateral would have to be based, it seems to me, on (i) assuming that multilateral aid is qualitatively more effective in serving the desired end--economic development, which would further U.S. security by helping other countries maintain their independence and develop into self-supporting nations. This is the official statement of the objectives of U.S. foreign aid; (ii) that multilateral aid is more acceptable and meets the inevitable criticism against U.S. interference in domestic policies of the countries in cases where aid is unilateral.

2. The first of the advantages in shifting funds to IDA mentioned by Mr. Frank--that the World Bank Group has been relatively free from carping criticism to which AID has been subjected--is not born out by the history of congressional debate in IDA replenishment.

3. This proposed transfer does not meet any of the charges levelled against the AID program. All the four major criticisms of the AID program that Mr. Frank mentions are applicable and sure to be raised by dissenting Congressmen in connection with any proposal to increase the resources of the IDA:

(i) Charge No. 1 is that the aid program is too big. As was pointed out by some witnesses in the hearing on IDA establishment, increasing the resources of IDA does not shift the burden from the U.S. -- the total of aid still remains the same.

(ii) Charge No. 2 is that the U.S. continues to give aid to countries which threaten war against their neighbors or otherwise adopt foreign policy measures counter to U.S. interests. This criticism would apply with greater force to internationally administered IDA -- the inability of the U.S. to further its foreign policy aims through IDA was one of the major points raised in the debate in IDA replenishment.

(iii) Charge No. 3 is that the aid program is poorly administered primarily in the sense that much of the money is advanced in the form of "program loans". As Mr. Frank points out that this criticism exists because many Congressmen do not understand the underlying rationale of "program loans". This criticism is the easiest to counter on economic grounds, and it would be inadvisable to make a case for IDA simply because it does not give "program loans".

(iv) Charge No. 4 is that other affluent nations take a back seat when it comes to helping poor nations. This is exactly the point raised by many Congressmen against IDA replenishment -- that the U.S. had failed to decrease its percentage contribution in IDA significantly. If there is any proposal for increase in the resources of IDA, Congressmen are likely to demand that other countries increase their proportionate share in IDA. This would be extremely difficult to achieve in practice.

Mr. George D. Woods

January 11, 1965

Irving S. Friedman

Fund Quota Increases

At lunch today with Mr. Dale we discussed the Fund's progress with the proposal for quota increases, particularly the problem of gold contributions and selective quota increases, i.e. over and above the agreed 25% general increase. It is hoped to have the proposed increases in quotas agreed in principle by the end of this month. I appreciate that this matter is being dealt with by others in the Bank, but felt it advisable to give you a summary of this conversation to ensure that you and others concerned are fully informed.

Mostly we talked about the question of gold contributions. This matter is still unsettled. It is agreed that the United States as well as other gold holding countries, with the possible exception of the United Kingdom, make the usual contributions of 25% of quota increases in gold. The United States expects to be able to announce, simultaneously with the decline in its official gold holdings, that there is a current increase in its gold tranche drawing rights in the Fund. The United States, like the United Kingdom, could ask for a waiver from the 25% rule, under Article III Sec. 4 of the Fund Agreement because its net monetary reserves are below its Fund quota. However, thus far at least, it has chosen not to do so. There is some pressure on the United Kingdom also to make its contribution in gold with the possibility of a drawing from the Fund to provide currencies with which the gold would be purchased, presumably from the United States. The United Kingdom is not prepared to see any uses of its present gold holdings which amount to about \$2.3 billion. The problem of gold contributions is, however, by no means solved and I would be glad to report orally on the details, if you so desire. The problem centers on how to offset the drain on U.S. gold reserves from the contribution to the Fund made by others which have to buy the gold from the U. S. The French and Dutch are the present dissenters.

There are to be about 17 selective quota increases in addition to the general quota increases. Of the Group of the Ten there are to be selective quota increases for Germany, Japan, Canada and Sweden. As a result Germany will have a quota of about \$1.1 billion, while France will be less than one billion. Canada and Japan, in that order, will be somewhat less than the new Indian quota of \$750 million. Italy will be considerably below Japan and Canada. There will also be subscription quota increases for a number of other European countries including Norway, Denmark, Finland, Austria and Spain. Spain has requested a larger quota increase of over 100%. A number of less developed countries have asked for special quota increases including Mexico, Iran, and possibly Algeria. It seems that the Europeans regard the requested increases for Spain and Mexico to be excessive.

There seems to be a tendency in the Fund staff to divorce selective increases in Fund quotas from corresponding increases in the Bank subscriptions. I had the impression from Mr. Dale that at one point a check had been made with the Bank as to whether it felt that such special increases of Fund quota ought to be matched by special increases in Bank subscriptions in order that the relative position of countries in both institutions be the same and that the less developed countries contribute something to the Bank resources when favored by special increases in their Fund quotas. This problem is dramatized by the case of Germany, which at present has the same capital subscription as France, but which would have a higher quota than France in the Fund unless there is a special increase in the Bank subscriptions at the same time. I gather that the impression prevails in the Fund that the Bank is in favor of the principle that special increases in Fund quotas should be matched by special increases in Bank subscriptions. Mr. Dale referred to a conversation between Mr. Knapp and Mr. Southard.

However, the German increase in capital subscriptions to the Bank seems to involve the problem of a corresponding reduction in the German foreign aid program. This has aroused some opposition. It is therefore possible that at the last moment the Germans will suggest that there not be an increase in their capital subscriptions to the Bank to match their special increase in the Fund. Given the viewpoint of the Fund staff the Bank could suddenly be confronted with a proposal that the German special quota increase in the Fund not be matched by an increase in the Bank and a very quick Bank reaction requested. If this were to materialize and if an exception was made for Germany, other countries which are expected to have special quota increases might likewise feel that they did not wish to have a corresponding increase in their Bank capital subscriptions. In view of the large number of special increases being contemplated, a precedent of major and lasting importance might well be created.

The question which is raised is whether it would be desirable for you to reiterate at this time the Bank's firm expectation that any selective increases in quota will be matched by a corresponding increase in capital subscriptions to the Bank.

ISF:pr1

cc: Mr. J. Burke Knapp

January 8, 1965

Dear Dr. Coombs:

I was glad to receive your letter of December 31, 1964, and would like to say that I would be happy to have a chance to chat with you on January 21.

Yours sincerely,

Irving S. Friedman

Dr. H.C. Coombs
Governor
Reserve Bank of Australia
8 Old Jewry
London W.C.1
England

Mr. George D. Woods

January 8, 1965

Irving S. Friedman

Pakistan

I am attaching a re-draft of the letter to Minister Shoaib. I enquired on a purely personal basis whether Pakistan had approached the Fund for a drawing or a standby. (This was easy for me to do because I was deeply involved in the Pakistan question during the summer as well as earlier. In July and August there had been a similar problem which was solved by reimbursements from the United States Government.) It seems that the Pakistan Ambassador has approached the Fund about a possible gold tranche drawing of \$16 million. Therefore Pakistan could obtain from the Fund this amount in the next few days. My source of information also volunteered to tell me that the United States was expected to make reimbursements of about \$60 million in January, which would greatly strengthen Pakistan's reserve position.

Since Pakistan's quota is \$150 million, Pakistan could obtain another \$37.5 million with ease. It would merely involve a letter to the Fund in which they would make some appropriate noises about taking measures to strengthen their balance of payments position but with no commitments. The question of a standby for a larger amount was held up because of the issues which we have discussed. At present I would say that Pakistan has been having an excessive credit expansion which has offset some of the beneficial effects of an improvement in the budget. Together with the effects of their exchange system, it is not surprising that they are over-importing. They have put a tax on the newly liberalized imports but this is not enough.

Unless the Fund has changed its view very recently, it has been eager to do business with Pakistan through the first credit tranche with more or less the present policies and even much more with a more fundamental attack on their balance of payments problem.

ISF:pr1

Confidential

Jan 8, 65

DECLASSIFIED

AUG 16 2023

WBG ARCHIVES

My dear Shoab:

I have received your letter of December 28, 1964, and I will remember our discussions both in Tokyo and Washington on the subject of industrial imports.

Needless to say I regret to learn that you feel you are now faced with the critical situation where the statutory reserves for your currency have fallen to a dangerously low level, but I am pleased that you have no doubt that this position is purely temporary. As for your request for IDA non-project assistance I can only say that my views are still the same as I expressed in our talks in Tokyo. I would hope that your needs for temporary assistance could be met elsewhere and perhaps there is also the possibility of obtaining quickly outstanding foreign exchange reimbursements.

As you know, I do believe that trade liberalization is desirable but, of course, it must be accompanied by other measures which ensure that the desired benefits are obtained and that unwanted over-importation is avoided. However, I am sure that you are well aware of the various aspects of this question and will find solutions appropriate to the needs. In the meantime please be assured that I am most eager to be helpful to Pakistan within the framework of the established policies of the Bank and the IDA.

With warm regards,

Yours sincerely,

George D. Woods

His Excellency
Mohamed Shoab
Minister of Finance
Government of Pakistan
Rawalpindi, Pakistan

ISFriedman/dm
January 8, 1965

cc: Mr. Reid
Mr. Mason
Sir Ernest Vasey

Mr. Nespoulous-Neuville

January 7, 1965

Irving S. Friedman

External Indebtedness

Please include in the statement on external indebtedness which you are preparing the factual information which the Bank would be prepared to make available for the use of creditors in the debt rescheduling operation.

cc: Mr. Avramovic

Karasz letter

January 4, 1965

Dear Arthur:

I have read with great interest the attachment to your letter of December 24 reporting on the meeting of the DAC Working Party on UNCTAD issues. For the moment I will address myself to paragraph 8 of the report dealing with the Resolution on Growth and Aid. As we discussed in Washington I see country studies as part of the regular work of the Bank which I hope will encompass periodic and systematic exchange of reviews with countries on their economic situations and policies and development plans irrespective of whether their exists likely prospects for project appraisal and financing in the relatively near future. Whether and what we do for the Trade and Development Board remains to be seen, presumably after discussions with Prebisch and others. Dick will be talking to you more about this.

I am puzzled by the summary given by Mr. Elson which in point (d) says that the studies "On Economic situations and policies" should be entrusted to the IMF. Obviously we hope and expect that the Fund will continue to have its annual consultations with countries but the purpose of such consultations and their focal point are quite different. For Article XIV countries the Fund is concerned with the possibilities of removal of exchange restrictions on current transactions and/or the assumption of the obligations of Article VIII of the Fund Agreement -- what is sometimes referred to as convertibility on current account. To fulfill this purpose the Fund has looked broadly at the country's economic trends and policies and indeed much of the factual material collected by the Fund would be the same as that collected in the Bank reviews -- a situation which already exists. This, in my opinion, would call for close collaboration and cooperation between the two institutions but I don't think you can split the work as suggested by Mr. Elson. For example, the Fund now includes in its discussions an appraisal of the development programs from the viewpoint of their monetary impact, their short-run balance of payments effects, the need for restrictions, etc. I don't think we would want to tell the Fund that they should not include a discussion of development from their viewpoint because if we did it would make their assessment of the situation partial and unrealistic. Similarly, I can't see the Bank reviewing development while reviewing simultaneously a country's economic trends and policies. But, perhaps I simply misunderstand. Incidentally, I am not troubled by overlapping as long as every effort is made to avoid unnecessary duplication of work.

With best wishes for the New Year,

Yours sincerely,

Irving S. Friedman

Mr. Arthur Karasz
I.B.R.D.
4 Avenue d'Iena
Paris 16e, France.

cc: Messrs. Wilson & Demuth

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Mr. Sture

DECLASSIFIED

January 6, 1965

Irving S. Friedman

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WBG ARCHIVES

I know that at this time of the year Performance Reports are being prepared in the Fund. I am quite prepared to give you my comments on any person in ERD but you may well find that there is no need for them.

However, in any case I would like to make a comment on Mrs. Mott. I found her work in 1964, as in previous years, of the highest caliber and would have undoubtedly given her an excellent rating.

Mr. van Campenhout

January 6, 1965

Irving S. Friedman

Application of Mr. Mark Cherniavsky

I think you will be interested in the attached note from Administration on Mr. Cherniavsky, which resulted from my follow-up on your memorandum and suggestion.

Would you please return the attachments when convenient.

OFFICE MEMORANDUM

TO: Heads of Area Departments

FROM: Irving S. Friedman

SUBJECT: External Debt Problems

DATE: January 5, 1965

Pursuant to our last meeting I am circulating for your comments a draft of Minutes prepared by Mr. Jalan.

In the meantime I have been having some informal discussions with Fund people. They have raised the question of how far we are prepared to go in providing assistance to countries in debt rescheduling. I informed them that Mr. Woods has repeatedly stated that where the creditors and the debtors desire the Bank is prepared to make knowledge and experience of the staff available in both the debtors and creditors in any debt rescheduling. Incidentally, this point was reaffirmed again by Mr. Woods at this morning's meeting.

However, this raises two questions on the kind of technical work required for debt renegotiations and specifically, what information could the Bank staff make available. Closely related is the question of what would be a reasonable division of labor with the DF. The Fund staff with whom I talked seemed concerned with the possibility that other institutions would be loath to provide the technical assistance in debt rescheduling and thereby an opportunity would be lost for the Bank and the Fund to have increased influence with member countries. They are, therefore, very eager to push ahead to some kind of position indicating what role the Fund is prepared to play in this field. I believe there is less doubt as to the Bank position, but the questions raised above still require an answer.

I would therefore suggest that we have another meeting on intobachane on Wednesday afternoon, January 6, at 2:30 if this is agreeable to you.

cc: Mr. Alderson
Mr. Death