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THE WORLD BANK

Washington, D.C.

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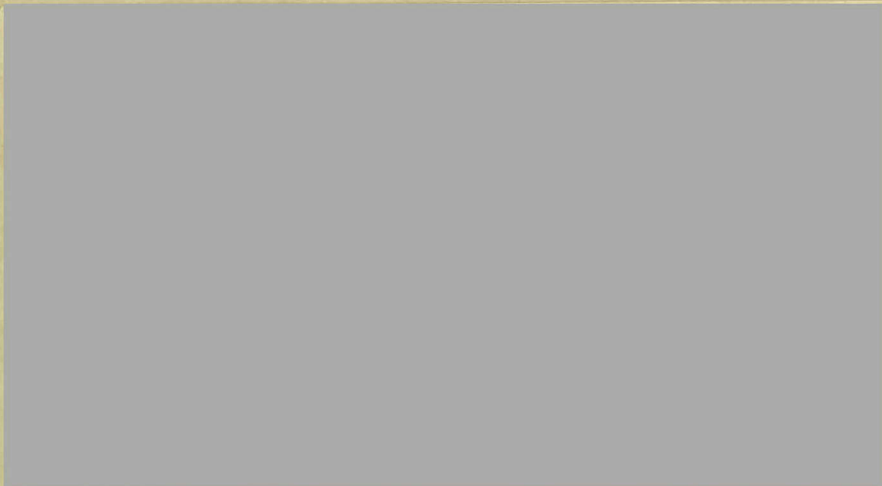
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series 5540

Irving S. Friedman Chron Files

1968

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The World Bank Group
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Irving S. Friedman - Chronological File - 1968 Correspondence - Volume 1

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

IRVING S. FRIEDMAN

Mr. Friedman became The Economic Adviser to the President of the World Bank in October, 1964, having previously been Director of the Exchange Restrictions Department of the International Monetary Fund since 1950. He joined the Fund in 1946 serving as Chief of the United States-Canada Division and from 1948 to 1950 as assistant for policy matters to the Deputy Managing Director. From 1941 to 1946 he was in the Office of the Secretary of the United States Treasury. He received his Ph.D. at Columbia University where he was a University Fellow. He was active in international discussions leading to the formation of the Fund and the Bank, the European Payments Union, the re-establishment of convertibility of European currencies and the review of the international monetary system and international liquidity.

In the World Bank he is in charge of economic activities, policies and mechanisms relating to development finance, and is chairman of the Economic Committee.

February 29, 1968

Copy to Mr. Woods' Files

RECEIVED
FEB 29 1968
February 29 1968

Dear Sir Michael,

On Mr. Woods's behalf I would like to acknowledge receipt of The Atlantic Trade Study press release and paper "After the Kennedy Round What Trade Policies Now?"

I am looking forward to reading the paper and have also taken the liberty of sending them to other interested colleagues in the Bank.

Yours sincerely,

(signed) Irving S. Friedman

Irving S. Friedman
The Economic Adviser to the President

Sir Michael Wright
Chairman
The Atlantic Trade Study
Moor House
London Wall
London E.C. 2

(Copy to Mr. Woods's office for record purposes)

Bondolo

DECLASSIFIED

AUG 16 2023

February 29 1968

PERSONAL

WBG ARCHIVES

My dear Anjaria,

First let me thank you for the action taken by the Reserve Bank of India on SID. I am rather proud that the idea of getting more international support for SID has caught on. I think we have finally reached a point where institutions are really flattered to be asked to be a Patron or Sponsor. Now I can quit being treasurer and leave the job for someone else to carry on, with the feeling of having accomplished something for the Society that may last.

Secondly, a friend of mine by the name of James Jennings is going to be in Bombay about April 16 to 20. He is working here with a group that has been set up by the Catholic Church to obtain U.S. public support for development activities overseas. It is an outcome of the Papal Encyclical on The Development of Peoples. Incidentally, if you haven't seen this Populorum Progressio I believe you will find it most interesting. (I enclose a copy in case you haven't.)

I have been working quite closely with this group on a purely personal basis and have learned to know Jim quite well. He gave up a very lucrative career in U.S. Steel to take on this work because of his conviction that this was his way of contributing to the solution of the world's ills. However, he has no background in this field and the purpose of his visit to India, which will be part of a trip around the world, will be to get a first-hand look at poverty and what is being done about it. He is not an economist and surely not a technician, but I know you will be interested in what he and his group are trying to accomplish. Perhaps I should add that it is part of a worldwide effort that is being made, and I hope that it might be particularly important in those Western European and North American countries where the Catholic Church is important; e.g., United States, Canada, France, Italy, and Belgium. If you could find a little time to chat with him I am sure it would make his experience in India much more rewarding.

This is a very thoughtful time for me within the Bank with Mr. Woods going and Mr. McNamara coming. I would be very pleased to have the opportunity to talk many things over with you. I expect to be going to the UNCTAD Conference around March 15 for about a week -- perhaps some way or another we might see each other? I for one would like that very much.

With very kind regards,

Yours sincerely,

Mr. J.J. Anjaria
Deputy Governor
Reserve Bank of India
Bombay, India

Irving S. Friedman

P-1 + Admin general

Mr. R.A. Clarke

February 29 1968

Irving S. Friedman

WILLIAM KLING

I am attaching a curriculum vitae sent to me by Ambassador Tasca, the present U.S. ambassador in Morocco who is an old friend of mine.

As you undoubtedly know, Ambassador Tasca is an eminent economist with a great deal of experience in international affairs, and from past experience I know that he is a good judge of people.

Attachment (1)

156

(Special folder - U of Chicago)

February 29 1968

Dear Professor Aliber,

Thank you for your letter of February 22.

I am sorry to learn that you are going back to June 8 and 9 for the Conference since, in the meantime, I have been invited to attend the Annual Meeting of the Bank for International Settlements in Basle, which is on the same weekend. Do you always hold your conferences on weekends? I am sure you have thought of other dates. Would something during the week be possible?

However, in any case, I will still plan to participate in the Conference and at least prepare a paper for it as I am very interested in the topic.

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

Professor Robert Z. Aliber
University of Chicago
Graduate School of Business
Chicago, Ill. 60637

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February 29 1968

AUG 16 2023

PERSONAL

WBG ARCHIVES

Dear Henry,

I should have acknowledged sooner your letter of February 9 -- please accept my apologies.

I do want to tell you that I have put Mr. Kling's curriculum vitae into the mill and we will be either directly in correspondence with him or writing further through you.

At the moment things in the Bank here are pretty uncertain. The Bank budget is being put together, but with an outgoing president and the new president not yet here it is hard to know at this time what, if anything, we will be doing on the staff side. Everyone expects the Bank to be in a period of expansion under McNamara. We could use more good people but I simply refuse to join the guessers. I continue to give much thought about the implications for myself of what is going on.

Edna and I, in any case, are looking forward to visiting Morocco on the way to Ceylon in July.

With warmest regards to you and Lena,

Yours,

Irving S. Friedman

The Honorable
Henry J. Tasca
Ambassador
United States Embassy

Box 99
FPO New York, N.Y. 09544

FILES

February 28 1968

Irving S. Friedman

Lunch with Mr. Merchant

Yesterday at lunch Mr. Merchant inquired what I thought the three critical problems which would confront the new president when he came to the Bank. My reaction was that they were:

1. The decision whether the Bank should continue to try to play the role of leadership in world economic development. In other words, should it continue the Woods policy of making the Bank a development finance institution, although Bank, to the private notion, is that a bank is a bank. (Mr. Merchant thought that there was no question of returning to the past and that the Woods innovations ought to be further developed.)
2. The external indebtedness problem -- giving a lead to the world as well as for Bank/IDA participation.
3. The structural changes within the Bank to cope with the new roles of the Bank initiated by Woods. This includes relations between the president and the Board and the Board and the staff, as well as within the staff itself, and relations between the staff and members.
4. The implications for the Bank of having to ration part of IDA funds so that both the recipient as well as donor countries became mainly concerned with how funds were being used.

Mr. Levy

February 28 1968

Irving S. Friedman

Mr. Merchant, the U.S. Executive Director, asked me if I could get some material for him to read on how the 1% of national income target is computed, and any comments thereon.

I would appreciate your help on this.

ISA

February 28 1968

Mrs. Doris Eliason: 461

Doris:

Mr. Friedman has requested that the following person be added to the Bank's mailing list. Could this be arranged please? Thanks.

Professor Warren Adams
Earlham College
Richmond
Indiana

Daphne M. Meyer

Mr. George D. Woods

February 23 1968

Irving S. Friedman

Commodity Stabilization Study

1. Please find attached the material for the draft outline of the Commodity Stabilization Study, which, Mr. Avramovic informs me, has been agreed with the Fund working party. There will be some minor drafting changes in the final document, without affecting the substance. We may wish to shorten the text for submission to the Board if this proves necessary.
2. The Plan of the study is ambitious and, as indicated in the headnote, may have to be shortened in the course of work.
3. The attached draft outline has also been sent to Mr. Schweitzer for possible use on Monday.

Attachment

which could not support large indebtedness on conventional terms. Furthermore, a number of members have greatly advanced in the preparatory work of improving their economic performance and identifying projects. It is also expected that this will lead to a more diversified use of the resources of the Association from the point of view of both their geographical and sectoral distribution. One particular factor in this expected change is the need to obtain a more diversified pattern of production and improved foreign exchange earning capacity in the countries concerned. In this connection, in accordance with the Resolution of the Board of Governors of the Bank of September 29, 1967, a study by the Bank staff in consultation with the Fund staff, is being prepared/on the stabilization of prices of primary products at a remunerative level, including possible solutions and their economic feasibility.

d. The discussions of the proposals for the replenishment of the resources of the Association have taken place in the face of considerable difficulties in some contributing countries, represented by large balance of payments deficits or budget and other difficulties. These difficulties have not made possible additions to the resources of the Association on a larger scale than is now proposed. Nevertheless, a 60 per cent increase over the level of the First Replenishment enlarges the role of the Association in the provision of development finance. The progress mentioned above of developing countries towards the development of a larger capacity to utilize effectively financial resources on concessionary terms is expected to continue in the coming years.

ISFriedman/USacchetti
February 23 1968

INTSAFRAD
NEW DELHI

FEBRUARY 21 1968

LT

INDIA

SO.13 FNR KARABZ AND SARMA

IDA REPLENISHMENT EXPECTED TO BE CONSIDERED BY EXECUTIVE DIRECTORS
DURING EARLY MARCH (STOP) WOODS ^{WISHES} ~~BELIEVES BETTER~~ FOR ME TO BE IN
WASHINGTON THEN ~~(WEEK)~~ BUT BELIEVES IMPORTANT FOR ME TO ATTEND UNCTAD
FOR SIGNIFICANT PERIOD OF TIME (STOP) WILL THEREFORE PLAN TO BE IN
DELHI FOR LAST PART OF CONFERENCE FROM ABOUT MARCH 13 OR 14 TO END OF
CONFERENCE PLEASE INFORM PREBISCH, EVERTS AND OTHERS INTERESTED (STOP)
HAVE FULLY INFORMED JALAN OF DISCUSSIONS TODAY WITH MR. WOODS ON
SUPPLEMENTARY FINANCE (STOP) HE EXPECTS TO BE IN DELHI MONDAY (STOP)
REGARDS

FRIEDMAN

Irving S. Friedman
Office of the President

RAYMOND MIKESELL
DEPARTMENT OF ECONOMICS
UNIVERSITY OF OREGON
EUGENE

FEBRUARY 21 1968

LT

OREGON

HOPE YOU CAN MAKE LUNCH ON THE 29TH LOOKING FORWARD
TO SEEING YOU WARM REGARDS

IRVING FRIEDMAN

Irving S. Friedman
Office of the President

NOTES FROM MR. KAMARCK ON TODAY'S SSM

1. At Senior Staff Mr. Woods asked Mr. Avramovic what the position is on sending the outline of the Rio Study to the Board. Mr. Avramovic said that he was discussing this with the Fund. Mr. Woods said that he did not think we should be held up by the Fund - that we should send the outline to the Board in March whether the Fund wanted to do it in March or April or not. He said that his idea is that the Board having the outline in March it could be discussed in April with the new president and consequently something ready for the Annual Meeting.
2. Mr. Woods said he is having lunch with Mr. McNamara and Mr. Schweitzer on Monday. If he does not hear from Mr. Avramovic by Friday he will tell Mr. Schweitzer and McNamara that we are going to send the outline to the Board whether the Fund is ready or not for this.
3. I am preparing a memorandum from you to Mr. Woods on Fund/Bank collaboration in economic work as a briefing document for Mr. Woods and Mr. McNamara.
4. There was no mention of supplementary finance or New Delhi at the SSM.

*Dictated by Mr. Kamarck.
(not seen by him)
OK*

February 21, 1968

Dear Mr. Carney:

I acknowledge receipt of and thank you for the copy of your paper entitled "The Dilemma of International Trade Theory in Relation to Economic Development." I find the paper to be interesting and thought provoking.

Sincerely yours,

George D. Woods

Mr. David Carney
Director
The United Nations African Institute for
Economic Development and Planning
P.O. Box 3186
Dakar, Senegal

ISFriedman/DBudhoo:rgw
February 20, 1968

February 21 1968

Dear Mr. Tilakaratna,

Thank you for your letter of February 10 advising me of the deadline for my paper and a summary statement for the Seventh SEANZA Central Banking Course. I most certainly will try to get it to you before June 1.

With kind regards,

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

Mr. W.M. Tilakaratna
Director of Economic Research
Seventh SEANZA Central Banking Course
Central Bank of Ceylon
COLOMBO : CEYLON

*Pending (to Budhas
after Paper arrives)*

February 20 1968

Dear Professor Huang,

Thank you for your letter of February 16. Your request for the documents has been passed on to our Information office who will be mailing them to you.

From the summary of your paper Flight Capital and Economic Development in Southeast Asia it looks most interesting, and I would be glad to see it myself and get others' opinions also.

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

Professor Kai-Loo Huang
Economics Department
Moravian College
Bethlehem, Pa. 18018

INTBAPRAD
NEW DELHI

February 20, 1968

L.T.

INDIA

No.9 FOR KARASZ

JALAN WILL BE LEAVING FOR NEW DELHI THIS WEEK ARRIVING MONDAY TWENTYSIX STOP
HE WILL CARRY PAPERS ON SUPPLEMENTARY FINANCE STOP PLEASE ARRANGE HOTEL
BOOKING FOR HIM STOP EYE WILL BE INFORMING YOU LATER OF MY PLANS STOP HAVE
NOT RECEIVED REPLY TO MY CABLE OF FEBRUARY SIXTEEN TO YOU STOP REGARDS

FRIEDMAN

Irving S. Friedman

The Economic Adviser to the President

February 20, 1968

Dear Mr. Bilheimer:

Thank you for your letter of January 25. The National Council's interest in possible effects of the U.S. balance of payments measures on development efforts is, of course, shared by the World Bank. At present, however, there are reasons for hesitating to put out a paper on the subject.

The Administration has declared its intention to avoid adverse effects on the flow of capital to the developing countries. In a recent white paper -- "Maintaining the strength of the United States dollar in a strong free world economy" published by the U.S. Treasury Department -- it is stated that "We cannot expect to strengthen our balance of payments at the expense of the less-developed world." The ceiling for investments in less developed countries is relatively high, and the U.S. Government has indicated that it will be interpreted with flexibility in cases where it appears to cause undue strain on less-developed countries. It is of course too early to tell how the measures will be applied in detail and what their effects will be.

The official U.S. attitude towards international institutions of development is also given in the white paper: "In the field of the multilateral development finance institutions, new efforts have been made to assure the compatibility of our participation with our balance of payments policies. While these efforts have balance of payments improvement as an objective, they also seek to strengthen these institutions and fully preserve their multilateral character."

In the same white paper the fact is acknowledged that the operations of multilateral development institutions, such as the World Bank and the Inter-American Development Bank, have been a net positive factor in the U.S. balance of payments. In the case of the World Bank Group, for instance, the amount of funds received by it from the United States is more than offset by the amount of funds that flows back to the United States from it in the form of principal and interest paid to bondholders, administrative expenses, investments in the United States and United States exports financed by it.

Mr. Robert S. Bilheimer
Executive Director
National Council of the Churches of Christ
in the U.S.A.

475, Riverside Drive
New York, N.Y. 10027

Mr. Robert S. Bilheimer

- 2 -

February 20, 1968

I hope you will understand the difficulties I see in publishing a paper on this matter now. I trust that the facts mentioned in this letter will be of help to you in understanding and evaluating the problem.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. Woods

February 19 1968

Irving S. Friedman

Letter No. 15 from New Delhi

I would like to bring this letter from Mr. Karasz to your attention since it reports your views on Supplementary Finance and says you will be discussing this with me "before his trip to Delhi".

I would like very much to discuss this trip with you.

Att:

February 19, 1968

Dear Mr. Townsend:

I am attaching hereto the promised article
on Supplementary Finance for Finance and Development.

I will let you have a biographical note to
include with the article.

Thank you.

Irving S. Friedman

Mr. R.B. Townsend
Room F-544

February 16, 1968

Supplementary Financial Measures

Most of the balance of payment problems facing the developing countries would be quite familiar to readers of this journal. 1/ On the payments side, these countries are faced with large and increasing needs for foreign exchange to pay for normal imports, developmental imports on an increasing scale, and an increasing burden of servicing past indebtedness. On the receipts side, their foreign exchange earnings, which are much larger than capital inflow, expand slowly and fluctuate widely. This is to a large extent due to predominant concentration of their exports in a few primary commodities for which world demand has been growing very slowly, at a much smaller rate than manufactures. At the same time, owing to the low elasticities of demand and supply, the primary commodity trade has been subject to violent fluctuations in prices and, as a result, earnings. Finally, the less developed countries have generally such a poor reserves position that they have had serious difficulties in coping with these problems on their own.

various international efforts have been made to assist the less developed countries in dealing with these problems. The need to overcome the difficulty created by slow growth of exports is a major consideration in the efforts to provide assistance needed to accelerate the process of development and diversification and also underlies the pressure to secure better access to markets for LDC's. The

1/ See, for example, P. Host Madsen - "Balance of Payments of Developing Countries" - Part I and Part II, Finance and Development, June and December 1967.

operations of the International Monetary Fund in general are addressed to assisting countries to deal with short-term disequilibria in their balance of payments; in particular, the recently established compensatory financing facility has been concerned with the problem of fluctuations in export receipts by providing funds to compensate for temporary declines in export receipts from a medium-term trend.

However, two aspects of the development efforts of the less developed countries give rise to a special kind of balance of payment problem for which there is no international machinery available at present. One aspect is the increasing use of the planning or programing technique in organizing their development efforts. This involves fairly firm commitments to development activities over a medium term period in the future on the basis of certain expectation about available resources, especially foreign exchange receipts, over this period. To the extent that export earnings fall short of such expectations, the development program is put in jeopardy. Secondly, a key aim of planned development is often to bring about by deliberate policy measures a change in past trends in export performance. In other words, the problem here is not so much to maintain the existing trend, but to create new trends by deliberate policy measures affecting exports. An unanticipated disturbance in the export market resulting in a shortfall in export earnings from expectations may

have grave consequences for the balance of payments of the developing countries. This kind of uncertainty cannot be measured by extrapolations of past trends but rather from estimates of future expectations, which take account of the effects of the country's own policies.

Projections of export earnings are built into development programs in two ways: the development _____

program contains commitments to certain policies affecting exports, which enter into the projections; the development program in turn is based on the export projection and is tested for financial feasibility on the basis of anticipated export earnings and other sources of development finance. If exports fail to materialize according to expectations, then at least the time schedule of planned expenditures is put in jeopardy unless the country enjoys an unusually high level of reserves or can rely on other sources of external capital on suitable terms.

Few developing countries, however, have sufficient reserves or adequate access to appropriate foreign funds to meet this kind of problem. As a result, an unexpected export shortfall usually leads to slowing down, and even halting, planned investment, and to hastily improvised import restriction programs which impede efficiency, particularly in the productive sectors. Investments already made may be wasted: investments that have been started may have to be discontinued; completed plants may stand only partially utilized. Contraction as well as the re-shaping of domestic expenditures is usually necessary, and sometimes even desirable, when unexpected declines in export earnings occur, but too often the axe falls on long-term - but basic - investments, resulting in a loss of momentum in the development effort. The hastily improvised reduction in development expenditures becomes the counterpart to the unexpected reduction in external funds available for development.

In a number of countries a disruption of development has precisely been the result of an unexpected export shortfall. What is more, in a number of these cases, the export shortfall has been due largely to unexpected movement in supply and demand conditions abroad, over which the affected country had no control. Colombia in the early 1960's is an outstanding example. In Colombia there was a significant shortfall in exports below the plan target made in 1961, largely because of the fall in coffee exports in -----

the 1960's. Though some decline in coffee prices had been expected, the extent of the decline was far beyond anything that could have been reasonably anticipated. The most immediate effect of the shortfall in export earnings was the slowing down of the rate of growth of industrial output. The rate of capital formation in Colombia is heavily dependent on the flow of imported machinery and equipment which increased by some 20 percent in 1960 and 7 percent in 1961, but declined by 13 percent in 1962 and 19 percent in 1963. Actual investment expenditures of the national government in 1963 were less than two-thirds of the target established under the plan which had been reviewed by the World Bank staff.

Recently, in November 1965, the World Bank staff proposed a scheme, generally known as the Scheme for Supplementary Finance, to meet the problem of unexpected shortfalls which are potentially disruptive of the development efforts of the developing countries. The study incorporating the Bank staff proposals was made in response to a resolution adopted by the first United Nations Conference on Trade and Development in 1964. It requested the Bank to study the feasibility of a new scheme which "should aim to deal with problems arising from adverse movements in export proceeds which prove to be of a nature or duration which cannot adequately be dealt with by short-term balance of payments support." An adverse movement was defined as a "shortfall from reasonable expectations" and the object of the scheme was "to provide longer term assistance to developing countries which would help them to avoid disruption of their development programs." The resolution, originally sponsored by the United Kingdom and Sweden, and adopted by a vote of 107 to none with 10 abstentions from Eastern Bloc countries, also requested the World Bank to work out such a scheme, if appropriate.

During the course of 1966/67, the Bank staff study on Supplementary Financial Measures was further examined by an expert group of governmental representatives consisting of 14 developed and developing countries set up by the Trade and Development Board of the United Nations. The Report of this Group has been sent to the UNCTAD, and the proposed scheme is being considered by the Conference.

The main ingredients of the scheme proposed by IBRD staff are as follows: A member country wishing to benefit from the scheme would enter into an understanding with the administering agency as to the main elements in its development program, the related policies, and its export projection. As long as the agency was satisfied that the member country was implementing these agreed policies and programs, it would be presumed that any shortfall from the agreed export projection was outside the country's control and likely to disrupt its development program. The scheme would then provide speedy relief.

Within the overall limitation of funds available to the agency, the amount of assistance would depend on the shortfall of actual exports from the internationally agreed projections, the amount of previously accumulated earnings above expectations (so-called "overages"), the amount of financing available from other sources, and finally, the feasible adjustments that the country itself could undertake to absorb part of the effects of an export shortfall without disrupting its development program. The extent to which the country would be called upon to use other sources of finance, as well as the nature of the feasible domestic adjustment, would be discussed in advance with the agency.

The scheme would be administered by an international agency, which might be one already existing or a new one established for the purpose.

Supporting member governments would provide resources permitting operations during an initial five-year period. The Bank staff study estimated that a level of \$300 million to \$400 million per year would probably be needed for the first five years. Benefits of the scheme would be available to all developing countries prepared to meet its requirements. Terms of assistance for each country would essentially be the same as for basic external development finance. For many countries the terms would have to be quite concessional.

Adoption of the scheme would provide developing countries with the assurance that, if policies with which the administering agency agreed were conscientiously carried out, development goals would not have to be scaled down because of a shortfall of export receipts from reasonable expectations. The agency would act quickly to fill the need for supplementary resources if a shortfall occurred which threatened disruption and could not otherwise be overcome or offset. On the other hand, if failure to pursue agreed policies were to jeopardize the country's eligibility for assistance, the government would be so informed without delay. The scheme thus aims to provide an incentive to countries to adhere to high standards of performance in the pursuit of economic development objectives.

The policy understanding between the country and the agency stipulated in the scheme builds on existing practices in the field of international development finance. Already, for example, understandings emerge in the course of day-to-day relationships between the World Bank and member countries; understandings on stabilization programs with the IMF are a well-established practice. For successful operation, the scheme envisages close collaboration between the agency and the IBRD, the IMF and other international agencies. Also, the policy understanding would be arrived at,

not by the agency acting alone, but through consultations, interchange of knowledge and views with the country concerned. As a result, the understanding would reflect a realistic evaluation of the members' needs and possibilities reached after full consultation rather than imposed on the country by the agency. The ingredients of the understanding would vary from country to country. Standardized criteria would be avoided; and much reliance would be placed on the objectivity of the international agency and its competence to agree with the country concerned on policy measures adapted to the conditions of the country, yet designed to achieve the objectives of economic development.

Another basic principle is that the export projection from which shortfalls are to be calculated would not only be as objective and scientific as statistical techniques and available data permitted, but also that it be agreed to between the agency and the country. This projection usually extending over the entire period of the development program, would be arrived at in the context of an understanding on the program as a whole. Revisions in export projections would be made when conditions, other than the export shortfall, necessitate the reformulation of the development program itself.

Many developing countries are already used to making export projections. They are an integral part of the planning process, serving as the basis for assessing the feasibility of investment programs which constitute the core of their planned development efforts. The World Bank is similarly accustomed to making and judging the reasonableness of projections in the course of its regular country work. The quality of projections can, of course, be improved by sharpening analytical tools and strengthening the basis for technical judgments; however, the improvement

in projection techniques by itself will not eliminate the problem of shortfalls since unexpected changes in the world economy will continue to take place.

Close cooperation between the member country and the international agency (or agencies) is really the key to the scheme. The performance criteria and export projections are to be worked out in such a way that the country concerned and the international agency can agree on what is feasible and desirable, thus worthy of support by the international community. As a consequence, both donors and recipients would have a stake in the success of the agreed development programs. In short, the scheme would further strengthen the process of making development an international responsibility that is already being carried out in the context of the provision of basic development finance.

An interesting relationship exists between the scheme for supplementary financial measures and international efforts to stabilize prices of primary commodities. Progress in negotiating international agreements on particular commodities will reduce the cost of supplementary financial measures, to the extent that such agreements make certain parts of a country's earnings more predictable and thus reduce the size of export shortfalls. There will, however, still be a need for supplementary financial measures in respect of that part of export earnings not covered by agreements, and this is likely to be substantial, at least for the foreseeable future.

Because the two approaches deal with inter-related problems, it has sometimes been suggested that the adoption of supplementary financial measures might reduce the efforts to achieve commodity agreements. This is unlikely to happen. One reason is that countries have certain important

advantages in earning foreign exchange from their own exports, subject to commodity agreements, as against obtaining foreign exchange as loans from supplementary finance, even if the loans are provided on concessional terms. Secondly, supplementary financial measures are only concerned with the extent to which actual export earnings are close to their expected values, and not with the price behavior of particular commodities.

The scheme is now in the hands of the Governments for consideration at the Second United Nations Conference on Trade and Development currently being held in New Delhi. Also before the Conference is the report of the representatives of 14 of these Governments, which met in three sessions of the Intergovernmental Group referred to above. All developing countries in the Inter-governmental Group, and some developed countries, have expressed the view that the important objective of preventing the disruption of good development programs by unexpected adverse export movements can be met by a scheme with the essential characteristics of the Bank staff scheme. As a result of the deliberations of this Group a number of points with regard to the operation of the scheme have become clearer; there are also some points concerning the details of financing and actual administration which would require further consideration, if and when an agreement in principle has been reached to establish the scheme. It remains to be seen what the Governments concerned will eventually decide with respect to this proposed scheme.

February 16 1968

Dear Professor Golay,

I was most interested to receive your letter of February 9 1968 regarding Mr. Oanh. I had not realized he was in the market for a position. It has been a number of years since I saw Mr. Oanh and it was before he had returned to Viet Nam where, as you undoubtedly know, he held a number of important Central Bank and political posts. As of the time I knew him I regarded him as a well-trained economist with a keen interest in problems of the developing countries, particularly his part of the world.

I feel sure that he is capable of supervising graduate student research in both economics and in your South East Asia program. He did his doctoral thesis at Harvard under Guy Orcutt and came very highly recommended to me by Orcutt. At the International Monetary Fund he really did not do much research so I had no opportunity to get any additional impressions. My only possible qualm would be whether he was strict enough in the application of high standards in dealing with graduate students, but this, however, is a kind of intuitive impression. Incidentally, he has an excellent command of the English language.

On balance I would recommend him for the position for which he is being considered. Indeed if you decide not to be interested in him, would you let me know since I might conceivably try to contact him for possible employment at the Bank.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Professor Frank H. Golay
Department of Economics
Cornell University
Ithaca, New York 14850

P-1

February 16, 1968

Dear Mr. Schlanger,

Thank you for the check for twenty-five dollars representing payment of half the advances and royalties on the hardcover reissue of my book BRITISH RELATIONS WITH CHINA, 1931-1939.

I am, of course, glad to know that the book is still of academic interest, and look forward to receiving the complimentary copies as mentioned in your agreement Mr. Holland.

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

Mr. Henry G. Schlanger
Octagon Books, Inc.
175 Fifth Avenue
New York, N. Y.

February 16 1968

My dear Scott,

I am attaching hereto the promised article on Supplementary Finance for Finance and Development.

Incidentally, would you want me to write a biographical note to be included with the article? Thank you.

Irving S. Friedman

Mr. J.D. Scott
F-544

INTBAFRAD
NEW DELHI

FEBRUARY 16 1968

LT

INDIA

NO. 8 FOR KARASZ

WOULD APPRECIATE OPINION OF YOURSELF AND SARMA ON WHEN BEST FOR
ME TO COME TO UNCTAD (STOP) AT PRESENT AM PLANNING TO COME ABOUT
FEBRUARY 28 (STOP) WILL FINALIZE PLANS AFTER HEARING FROM YOU AND
TALKING TO MR. WOODS WHO IS RETURNING THIS WEEKEND REGARDS

FRIEDMAN

Irving S. Friedman

Office of the President

Mr. Hulley

February 15 1968

Irving S. Friedman

Reply to Mr. Cheng

I am quite unhappy about the suggested replies to Dr. Cheng. Could you, perhaps in consultation with Bob Cavanaugh, draft a reply addressing yourself only to the question which he has asked us to comment on.

ISA

Attachment:

Letter & draft paper on "World Bank Certification of International Bond Issues of the Less-Developed Countries - a Proposal" from Hang-Sheng Cheng, Dept. of Economics, Iowa State University of Science and Technology, Ames, Iowa.

Mr. S.R. Cope

February 15 1968

Irving S. Friedman

Nicaragua - Economic Section of the President's Report

Thank you for your memorandum of February 1 on the Economic Section of the President's Report and the proposed loan to Nicaragua.

It is quite clear that that part of the Operational Memorandum dealing with the Economic Section of the President's Report is outdated and needs revision. I hope to get out a draft of a new instruction on this some time within the next few weeks. I would be glad to have any suggestions on this that you might have.

Pending

February 15 1968

Dear Mike,

Thanks for your letter of February 13. As things look at the moment I may be in New Delhi when you get here. However, there is a possibility I will be leaving later in March.

If the latter possibility comes to pass then why not lunch here on February 29. If I leave earlier for Delhi, then I'll let you know.

With warm regards,

Yours sincerely,

Irving S. Friedman

PS. Incidentally, your letter speaks of February 29 and 30. As you know February 29 is Leap Year Day. I presume the reference to February 30 instead of March 1 has some deep Freudian implications!

Professor R.F. Mikesell
W.E. Miner Professor of Economics
University of Oregon
Department of Economics
Eugene, Oregon

*Pending list -
(Wood's drawer)*

February 15 1968

Dear Dean Little,

Thank you for your letter of February 1 inviting me to participate in your 1968 Summer Lecture Series. I will be happy to accept the invitation to come on August 7, or if that isn't convenient to you, July 31.

I am hoping to bring my wife with me and therefore we will make our own accommodation bookings.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Dean J.R. Little
Associate Dean of the Faculties, and
Chairman, Summer Lecture Series Committee
University of Colorado
Boulder, Colorado 80302

GEORGE WOODS
EXCELSIOR HOTEL
ROME

FEBRUARY 12 1968

FULL RATE

ITALY

STRONG INFORMS ME PM SPOKE TO HW AS SUGGESTED WALT
DOES NOT KNOW WHETHER MENTION WAS MADE IN WASHINGTON TALKS
REGARDS

FRIEDMAN

Irving S. Friedman
Office of the President

(Copy for Miss Schmitt)

Area Department Economic Advisers

February 9, 1968

Irving S. Friedman

Economic Committee Meetings

Now that the Economic Committee has had an opportunity to review almost all the countries with which the Bank Group is concerned, we have reached a stage when a number of economic reports are coming out on countries for which no new policy decisions may need to be taken since the situation has not significantly changed since the Committee's last meeting. In these circumstances it may not be necessary for the Committee to hold a meeting. Therefore, when reports are about to appear on countries for which the Area Department concerned believes that no new Policy Memorandum is necessary or where the Policy Memorandum proposes no significant changes in policy, I should appreciate a short memorandum setting out the relevant circumstances, unless it can be handled by oral communication. It will then be possible for me to decide whether any meeting is required and, if so, whether it should be a meeting of the full Committee or of some smaller group of those immediately concerned. We have already been following this practice for some months but it seems advisable to put it on a more regular basis.

cc: Mr. Larsen
Mr. Edelman
Mr. B. King
Mr. McDiarmid
Mr. Thompson
Mr. Van der Mel
Mr. Weiner
Mr. Wright

Mr. Kamarck
Mr. Owen

DECLASSIFIED

February 9 1968

AUG 16 2023

PERSONAL

WBG ARCHIVES

Dear Barbara,

I am enclosing the promised bibliography. It has gotten somewhat bigger than originally planned but I thought that on balance it should be a bit longer rather than shorter.

*** You will note a number of major omissions. For one thing I haven't included any of your own valuable contributions! I have also not included various documents and publications put out by the World Bank such as survey mission reports on various countries and areas, country economic studies, special economic series, etc. I have not included material which, in effect, educates anyone on the World Bank Group as such. The Supplementary Finance study is included but it isn't really a study on the Bank or IDA but rather on a new problem in international finance which is in dire need of constructive action.

Incidentally, there are one or two references to Bank unpublished papers and these could be provided if needed. The paper on estimates of capital inflows we have kept confidential primarily because it lists by countries our estimates of their capital inflow needs and it might be diplomatically embarrassing to have these estimates in some published form. However, all of these estimates are to be found in our individual country studies that all include chapters on external financial aid requirements and these studies we do circulate outside the Bank.

I have arranged for Monsignor Bordelon to be included among the panelists at the SID Conference and he seems to be happy to do it -- I am sure he will make a very worthwhile contribution.

I am sorry that we did not get to see each other during your recent visit. My present plans are to go to the UNCTAD for about ten days between the end of February and early March.

With kind regards,

Sincerely,

(signed) Irving S. Friedman

Irving S. Friedman

Lady Jackson
Sheraton Commander Hotel
Cambridge,
Mass. 02138

PS: If you want a list dealing with the World Bank group, it could be provided. (handwritten by ISF)

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Mr. Nespoulous Neuville

February 9 1968

Irving S. Friedman

Mr. Douglas Gibson's visit - Feb. 14-15 1968

I would appreciate your setting up a schedule of appointments for Mr. Gibson. You might set aside Thursday morning 9:30 for me.

I should inform Mr. Reid on Monday what the schedule will be.

Thank you.

154

February 9/68

UNCTAD II

Mr. Friedman reported that, in his opening speech at the UNCTAD II Conference in New Delhi, Mr. Prebisch, Secretary General of UNCTAD, had strongly supported the supplementary financing scheme. The Dutch and German representatives had also made helpful remarks on the subject, although Germany had been expected to take a negative line. A newspaper had reported that Mr. Debre, the French Finance Minister, and Mr. Eugene Rostow, the U.S. Under Secretary of State for Political Affairs, as having reflected at a press conference a hostile attitude, but Mr. Rostow had not mentioned it in his speech, and had also spoken of the need for further study.

February 8, 1968

Mr. Kamarck

800

Do you agree as amended?

Irving S. Friedman

D R A F T

To: Area Department Economic Advisers
From: Irving S. Friedman
Subject: Economic Committee Meetings

Now that the Economic Committee has had an opportunity to review almost all the countries with which the Bank Group is concerned, we have reached a stage when a number of economic reports are coming out on countries for which no new policy decisions may need to be taken since the situation has not significantly changed since the Committee's last meeting. In these circumstances it may not be necessary for the Committee to hold a meeting. Therefore, when reports are about to appear on countries for which the Area Department concerned believes that no new Policy Memorandum is necessary or where the Policy Memorandum proposes no significant changes in policy, I should appreciate a short memorandum setting out the relevant circumstances, unless it can be handled by oral communication. It will then be possible for me to decide whether any meeting is required and if so whether it should be a meeting of the full Committee or of some smaller group of those immediately concerned. We have already been following this practice for some months but it seems advisable to put it on a more regular basis.

February 7, 1968

My dear Shenoy:

Thank you for your letter of January 19 and invitation to lecture at the New Delhi National Defence College.

My plans, at the moment, are to leave here probably on February 25 and return week ending March 9. As much as I would be delighted to address the college members I feel that the UNCTAD discussions at that time will require my whole attention. Please express to Rear Admiral M.K. Heble my regrets. (Incidentally, I have not heard anything from Mr. Gilmartin about this.)

Hoping to see you in Delhi - my present plans are to stay at the Ashoka Hotel.

With kind regards,

Sincerely,

Irving S. Friedman

Mr. B.R. Shenoy
Director & Professor of Economics
University School of Social Sciences
Gujarat University
Ahmedabad-9, India

Feb. 6/68

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AUG 16 2023

PERSONAL

WBG ARCHIVES

February 6, 1968

Dear Governor Real:

I am taking the liberty of writing to you again about support for the Society for International Development by the Central Bank of Argentina. We have now established a new category called Sponsor of the Society, for institutions which contribute from \$500-1,000 per year. I do hope that it will be possible for the Central Bank of Argentina to be in this category. The Society for International Development is having its Annual International Conference at the beginning of March and I am now preparing my report as Treasurer of the Society. I would like very much to be able to include Argentina with the other Central Banks who have joined this category.

I am asking Fernandez to carry this letter for me and would appreciate, if possible, a telegraphic reply.

With best wishes,

Sincerely yours,

Irving S. Friedman

Dr. Pedro Eduardo Real
President
Central Bank of Argentina
Buenos Aires
Argentina

cc: Mr. Andrew Rice

DECLASSIFIED

AUG 16 2023

PERSONAL

February 6, 1968

WBG ARCHIVES

Dear Jorge:

I have been asked to follow up the letter from Andrew Rice of December 8 asking whether your institution could become a Patron of the Society for International Development. Our Patrons contribute \$1,000-4,000 per year and include the leading international financial institutions. I am now preparing my report as Treasurer of the Society for the Annual International Conference early in March and would appreciate very much knowing your decision before finalizing my report for the Conference.

There is much I would like to talk to you about and have your advice. The world continues to be a most troubled place and I find it hard to know what policy directions are most desirable and practical! Are you going to be in Washington soon? I'll be at UNCTAD in Delhi for about two weeks (about February 25 - March 10), but hope to be home before and after.

Warmest regards,

Sincerely,

Irving S. Friedman

Mr. Jorge Sol Castellanos
Director
Banco Centroamericano de Integracion Economica
Tegucigalpa, Honduras

cc: Mr. Andrew Rice

DECLASSIFIED

AUG 16 2023

PERSONAL

WBG ARCHIVES

February 6, 1968

Dear Governor Machado:

I am writing this as Treasurer of the Society for International Development. I am informed that your Bank has agreed to contribute \$100 per year, and I would like to express my appreciation for this. I have been out of the country a great deal or I would have written sooner.

At the moment I am beginning to prepare my report as Treasurer of S.I.D. for the International Conference being held in early March. I thought that you would want me to tell you that, as we discussed very briefly at the airport, we have established a new category of contributor called Sponsor of the Society for institutions that contribute \$500-1,000 per year. A number of central banks have joined this category, including the Bank of Brazil. Needless to say we would be very happy if it was possible for your Central Bank to also join this category. I hesitate to write this coming so soon after your generous decision to give the Society \$100 per year, but thought that you would like to know of these latest developments.

Since I am writing this as Treasurer of S.I.D. and not in my official capacity, I will say nothing about the many thoughts that come to mind when thinking about Venezuela. I do hope we will have a chance for a long chat in the fairly near future.

With warmest regards,

Sincerely,

Irving S. Friedman

Mr. Alfredo Machado Gómez
President
Banco Central de Venezuela
Caracas, Venezuela

cc: Mr. Andrew Rice

February 6 1968

Dear Andy,

In reply to your letter of January 31
I am sorry to say that we don't have such a
list.

Please call on me to be of help in any
other way.

Sincerely,

Irving S. Friedman

Mr. Andrew E. Rice
Executive Secretary
Society for International Development
1346 Connecticut Avenue NW
Washington DC 20036

*Cons to files.
(Ref to 1220)*

February 6 1968

Dear Gardner,

Mr. Woods's secretary has brought to my attention your note of January 30 addressing to him an advance copy of the Economic Report of the President and the Annual Report of the Council.

George, as you may know, has gone out to the UNCTAD Conference but I am sure that he would wish to have your note acknowledged.

With best wishes on your new assignment,

Yours sincerely,

Irving S. Friedman

Mr. Gardner Ackley
The Chairman of the Council
of Economic Advisers
Washington D.C.

(Copy for Mr. Woods's office)

February 6 1968

Mr. Kamarck and	800
Mr. R.A. Clarke	200

I would appreciate your help in
replying to the attached letter. Thanks.

(Letter dated Jan. 8 from Professor Robert C. Vogel of Wesleyan University
Middletown, Conn. requesting possibility of work for the Bank
in Latin America during his year's leave and sabbatical from Wesleyan.)

No. 2

February 5 1968

Dear Arthur,

You will recall that I promised we would send to you a background paper on Bank Estimates of Capital Inflow for the guidance of the Bank group in Delhi. I am enclosing two copies.

The paper was prepared by Hawkins and gone over by myself, and perhaps by others. I think that you will find it most useful. Despite the statistics given here I don't think that in any public statement we ought to say more than that our estimates are still within the neighborhood of \$3 - \$4 billion. The way it is put in the paper was worked out by Hawkins and myself.

Kind regards,

Yours sincerely,

(signed) Irving S. Friedman

Irving S. Friedman

Mr. Arthur Karasz
International Bank for Reconstruction
and Development
P.O. Box 416
New Delhi, India.

Mr. Hulley

1021

I would appreciate your drafting a reply to this. I think we ought to at least refer to the fact that we have already given to the public on World Bank bonds. My own first reaction is to discourage giving a paper on the subject, explaining why.

*(Letter from Rlt. Bilkins -
National Council of Lehigh, N.Y.)*

ROBERT Z ALIBER
UNIVERSITY OF CHICAGO
GRADUATE SCHOOL OF BUSINESS
CHICAGO

FEBRUARY 5 1968

USA

BELIEVE DATES MAY 31 JUNE 1 ARE FEASIBLE (STOP) WILL BE
PLEASED ATTEND CONFERENCE

FRIEDMAN
INTBAFRAD

Irving S. Friedman
Office of the President

February 5, 1968

Mr. Williams

853

Please note suggested deletions.
Who is Kao?

Irving S. Friedman

(In reply to memo on Distribution of
Confidential Economic Reports - Jan. 18/68)

KARASZ
INTRAFRAD
NEW DELHI

February 2, 1968

Full Rate

INDIA

FOUR

REGARDING SUPPLIERS CREDITS PLEASE ADVISE WHETHER YOU STILL CONSIDER
REPRESENTATION FROM WASHINGTON DESIRABLE AND PROBABLE TIME DISCUSSION
STOP IF ESSENTIAL CAN DETAIL NESPOULOUS NEUVILLE STOP Awaiting YOUR
ADVICE

FRIEDMAN

IRVING S. FRIEDMAN
THE ECONOMIC ADVISER TO THE PRESIDENT

Copies to: Mr. Hoffman
Mr. Kamarek
Mr. Sacchetti
Mr. Kalmanoff

Mr. Kamarck
Mr. Adler

February 2 1968

Irving S. Friedman

Annual Report

Mr. Donner has requested an outline of an economic chapter for the Annual Report before the Board meeting. He said he would have no objection to our circulating it under "at the request of an Executive Director". He thought this would help the discussion. I said we would consider the matter.

FEB 1 - 1968

Mr. Hulley

1021

The attached is self-evident -- I thought you might find it interesting. I haven't read it yet. I'm sure Reid would appreciate any comments that you or I might have on it.

REID CHAMBERS PAPER ON PUERTO RICO)

January 31, 1968

Mr. Kamarck

800

Irving S. Friedman

Cable from Algerian Minister of Planning
on not distributing Algeria Economic Report
of November 16/67

Mr. George D. Woods

January 30, 1968

Irving S. Friedman

External Debt

Attached hereto are two tables on external debt, as requested.

It will be noted that the five largest countries account for over 41% of the debt and the ten largest account for nearly 60%. However, as indicated in Table 2, there are a number of small countries which have serious indebtedness problems, even though the total magnitude of debt is relatively small.

EXTERNAL PUBLIC DEBT OUTSTANDING JANUARY 1, 1967 OF COUNTRIES CONSTITUTING
ABOUT 75% OF THE DEBT OF ALL DEVELOPING COUNTRIES

(In 000 \$)

Country	Debt outstanding January 1, 1967	Cumulative percentage
India	7,318,057	17.6
Brazil	3,201,244	25.4
Pakistan	2,533,278	31.5
Mexico	2,235,914	36.9
Argentina	1,887,792	41.4
Yugoslavia	1,715,463	45.6
Indonesia	1,697,934	49.6
Turkey	1,552,200	53.4
Chile	1,259,977	56.4
Iran	1,021,606	58.9
Colombia	1,013,149	61.3
Israel	933,027	63.6
Peru	891,866	65.7
Nigeria	598,619	67.2
Afghanistan	552,691	68.5
Korea	551,601	69.8
Greece	459,943	70.9
Venezuela	453,950	72.0
Ghana	443,415	73.1
Philippines	428,632	74.1
Algeria	422,166	75.2
Total	31,172,524	75.2
All developing countries	41,472,934	

Statistical Services Division
Economics Department
January 30, 1968

RATIO OF SERVICE PAYMENTS TO EXPORTS FOR 1966 AND EXTERNAL PUBLIC DEBT OUTSTANDING
 JANUARY 1, 1966 AND 1967 FOR 20 COUNTRIES WITH LARGEST RATIOS

(amounts in 000\$)

Country	Service payments	Debt outstanding	
	Exports %	January 1, 1966	January 1, 1967
Mali	71.0	135.9	193.1
Brazil	29.4	3,054.0	3,201.2
Indonesia	25.5	1,919.5	1,697.9
Israel	24.9	118.0	933.0
Argentina	23.9	1,960.5	1,887.8
Yugoslavia	21.8	1,855.5	1,715.5
Mexico	21.1	2,053.9	2,235.9
Ghana	20.4	494.6	443.4
Uruguay	17.5	275.3	258.5
India	16.3	6,256.3	7,318.1
Chad	15.0	20.6	23.5
Dominican Republic	14.3	126.0	172.0
Colombia	13.4	1,039.4	1,013.1
Pakistan	12.0	2,343.2	2,533.3
Tunisia	11.9	364.8	413.6
Turkey	11.6	1,249.9	1,552.2
Chile	11.2	1,228.0	1,260.0
Afghanistan	11.0	555.4	552.7
Costa Rica	10.2	145.4	142.1
Peru	10.0	666.8	891.9

Statistical Services Division
 Economics Department
 January 30, 1968

Mr. George D. Woods

January 30, 1968

Irving S. Friedman

Criteria for IDA Allocations

Please find attached three memoranda on the Criteria for IDA Allocations, two of them prepared by John Adler and one by R.M. Sundrum and B. Jalan, after discussions with Bank staff in Area, Economic and Development Services Departments.

The conclusions which emerge from the papers (and the discussions with me and others) may be summarized as follows: In the future, the allocation of IDA resources should be based on a number of criteria including the following:

- (1) The "poverty test", which at present limits eligibility for IDA credits to countries with a per capita income of less than \$250, should be raised to, say, \$300 or \$350, or some other measure of poverty should be used in a flexible fashion.
- (2) This "relaxed" test of poverty should be combined with an evaluation of the ability of countries to generate and mobilize savings.
- (3) The performance criteria to determine IDA eligibility should not be changed and should be the same as those applied to Bank lending.
- (4) No differentiation should be made between project eligibility for IDA credits or Bank loans. But because of the difficulty of meeting local costs, IDA should be more receptive to requests for the financing of local currency expenditures than the Bank.
- (5) The amount of foreign financial assistance which a country receives from sources other than the Bank and IDA should be taken into account.
- (6) The lack of creditworthiness criteria should be refined to take account not only of the debt service ratio but also of the ratio of debt service to local savings and, where appropriate, to government revenues.
- (7) Terms of IDA credits should be more flexible, e.g. for countries with reasonable prospects that their balance of payments problems can be overcome in the not too distant future, maturities of IDA credits should be shortened from 50 to, say, 30 years, perhaps with a proviso that after 20 years these terms will be reconsidered.

If IDA resources are allocated on the basis of these new criteria and if account is taken of the fact that many more countries in Africa and several more in Asia are likely to qualify for IDA assistance, the following pattern

of the regional distribution of IDA operations emerges:

- (1) The share of IDA credits of other Asian countries other than India and Pakistan (Indonesia, Ceylon) and of Africa, especially French-speaking countries, will increase.
- (2) There would be a modest increase in IDA credits to Latin America.
- (3) The share of India and Pakistan in IDA resources would substantially decrease.

On the last point, even these more refined criteria may result, from a practical viewpoint in too much for India and Pakistan and, in that case, some more arbitrary limitation on IDA commitments to them may be necessary.

RAUL PREBISCH
OBEROI HOTEL
NEW DELHI

January 30, 1968

~~Full Rate~~ L T

INDIA

FRIEDMANS ATTEMPTED PHONE CALL WAS TO INFORM YOU OF LATEST
STATUS OF PROPOSAL I MADE IN STOCKHOLM SPEECH FOR REVIEW OF
DEVELOPMENT PROBLEMS BY OUTSIDE EXPERTS STOP BELIEVE NOW ABLE
TO PROCEED WITH IMPLEMENTATION OF PROPOSAL BECAUSE OF PROGRESS
MADE IN IDA REPLENISHMENT STOP WISH TO EXPRESS MY APPRECIATION
FOR YOUR PERSONAL SUPPORT OF PROPOSAL STOP REGARDS

WOODS

George D. Woods
President

ISF/mlr

RAUL FREIBISCH
CHEROI HOTEL
NEW DELHI

January 30, 1968

Full Rate

INDIA

PERSONAL STOP WOODS FEELS NOW ABLE TO PROCEED WITH IMPLEMENTATION OF
PROPOSAL HE MADE IN STOCKHOLM SPEECH FOR REVIEW OF DEVELOPMENT PROBLEMS
BY OUTSIDE EXPERTS STOP HE APPRECIATES VERY MUCH PERSONAL SUPPORT YOU
HAVE GIVEN HIS PROPOSAL STOP EYE HOPE YOU WILL CONTINUE TO SUPPORT THIS
PROPOSAL AND HELP OBTAIN SUPPORT FOR IT BY OTHERS

FRIEDMAN

Irving S. Friedman

The Economic Adviser to the President

IDA CRITERIA
Some Issues

A. Eligibility Criteria

1. What should be the country "eligibility" criteria for IDA assistance? Are the present criteria in terms of economic performance, creditworthiness and per capita income satisfactory? If not, how else to "ration" the resources of IDA?

B. Purposes and Programs of IDA Assistance

2. Should the purposes of IDA assistance be different from that of the Bank?

3. Should IDA funds be used for specific projects or whether such funds may be used for non-project aid?

4. Can IDA funds be used to cover a part of the local costs?

5. What should be the emphasis on revenue-producing projects as against projects which are only partially revenue-producing?

6. How about IDA financing some special projects or purposes, e.g. export promotion projects, regional projects, financing buffer stocks, etc?

C. Terms and Conditions of IDA Assistance

7. Should we change the terms of IDA assistance according to the needs of various countries? If so, should this be done ad hoc or in terms of two or three categories?

8. Is the IDA interest charge too low, or the maturities too long?

9. Supervision of IDA funds received by initial IDA borrowing governments and relent to ultimate borrowers?

D. Programming of IDA Operations

10. Should IDA "program" investments in advance?

11. Should there be limits on credits to any one country or region?

January 30, 1968

UNCLASSIFIED
DATE 11-15-2011
BY 60322/UC/STP/STP

January 30, 1968

Dear Monsignor Bordelon:

I am enclosing a copy of the Preliminary Program of the 10th Anniversary World Conference of S.I.D., which is scheduled to take place March 6-9. You will notice that there is to be a so-called Panel Workshop on Saturday morning March 9, on the subject of "Mobilizing Popular Support for Foreign Aid" with Andy Rice presiding. I have suggested to Andy that it might be desirable to involve you in this discussion. He is agreeable to having you added to the group as a discussant, if you so desire.

Please let me know if you would like to have this done, and I will pass it on to Andy Rice.

Sincerely yours,

Irving S. Friedman

Very Reverend
Monsignor Marvin Bordelon
National Conference of Catholic Bishops
1312 Massachusetts Avenue, N.W.
Washington, D. C. 20005

DECLASSIFIED

PERSONAL

January 30, 1968

AUG 16 2023

WBG ARCHIVES

Dear Gengo:

I see that you are on the S.I.D. Program. I do hope that you will be visiting with us for some time, as needless to say I am looking forward very much to seeing you in Washington. I might not be here for the S.I.D. Conference since I might not have returned from the UNCTAD meeting in New Delhi.

I am planning to be in New Delhi from about February 25 to about March 11, with a stopover on return at the monthly meeting of the B.I.S. However, my plans are still uncertain. In any case I would hope that you would stay in Washington for some extra days. We would, of course, be most happy if you would like to stay with us.

There is a great deal to tell you but I won't try to write, since I hope that we will be seeing each other. I surely miss your wise advice!

With warmest regards,

Sincerely,

Irving S. Friedman

Mr. Gengo Suzuki
Auditor
Bank of Japan
C.40 Box 203
Tokyo, Japan

I. ECONOMIC WORK AND WORLD BANK GROUP

- (a) Scope
- (b) Division of Responsibilities among the Departments (and I.F.C.)
- (c) Review Machinery
- (d) Coordinating Machinery
- (e) Relations to other Functions
- (f) Overall Supervision
- (g) Critique:
 - (i) Strong points
 - (ii) Weak points

January 30, 1968

(Given to Mr. Kamarck)

copy given to Yogi
1/30

I Introduction: The Problem of Growth of Developing Countries

1. The problem of economic development of developing countries is going to be with us for some time to come. The optimistic atmosphere which marked the beginning of the "development decade" with its target of 5% growth of national income, has given way in some cases to a more realistic appraisal of the world development problem, and in others to pessimism about possibilities.
2. The Algiers charter adopted by the Ministerial meeting of the Group of 77 on October 24, 1967 notes that the gap between the developed and the developing world is widening: "While the developed countries are adding annually approximately 60 dollars to the per capita income of their people, the average increase of per capita income in the developing world amounts to less than 2 dollars per annum". It appears that the average annual rate of increase of the gross domestic product in the developing countries declined from 4.6% in 1950-55 to 4.4% in 1955-60 and again to 4.2% in 1960-65. However, these aggregate growth rates conceal wide variations among countries and regions. There have been a number of "success" stories in tackling the development problem as was pointed out by Mr. Woods in his address to the annual meeting of the IBRD in Rio de Janeiro, September 1967.

II The Growing Need for External Resources

1. The assistance needs of developing countries stem from two sources: First, because of their low levels of per capita income and deficiencies in the organization for mobilizing domestic resources they may be unable to raise enough domestic resources to finance investment needs of rapid growth. Secondly, because of the relatively large import needs of investment, and the problems in expanding foreign exchange earnings rapidly, they may for structural reasons be unable to transform enough domestic resources into foreign exchange earnings to meet payments requirements for growth. Both the savings gap and the foreign exchange gap may be met by foreign assistance. Foreign capital on commercial terms while meeting this problem in the short run, may only worsen it in the long run as the repayment of past debt may absorb substantial foreign exchange earnings.
2. The external assistance requirements of developing countries have been variously estimated. However, almost all such estimates made in the 1960s indicate that the requirements of developing countries for external resources would require a larger increase of flows over present levels. The World Bank has estimated that the developing countries could use to advantage an additional three to four billion dollars of external resources.
3. Against this background of increasing requirements for assistance the slow growth of net flows to LDCs and the stagnation in official bilateral assistance is very disquieting.

III. Aid Flows: Levels and Trends

1. The total net flows from developed to less developed countries increased from \$9 billion in 1961 to nearly \$11 billion in 1966. This includes aid from bilateral and multilateral sources and private capital flows.
2. The flow of aid to LDCs from 15 DAC member countries after nearly the doubling in six years 1955-61 (from \$3.2 billion to \$6.0 billion) has stagnated around \$6.0 billion in the five years 1962-66.
3. The stagnation of aid flows reflects the stagnation in the assistance to LDCs from the major donor countries viz the U.S.A., France, Germany and the United Kingdom. The share of these countries in the total official aid flow from DAC members declined from 91% in 1961 to 84% in 1966. The total aid flow from these countries was \$15.47 billion in 1961 and \$5.35 billion in 1966.
4. The assistance from a number of minor donor countries has increased significantly during 1961-66, (e.g., Canada, Japan, Sweden, Austria and Australia). However, because of the low base figures and the relatively small weight of assistance from these countries in total aid flows, the effect on the total aid flow has not been marked.
5. The stagnation of aid flows occurred in a situation of increasing incomes. The combined national income of the fifteen DAC countries increased by about \$361 billion between 1961 and 1966, while total aid flow increased by \$420/^{million}dollars. The marginal propensity to devote resources to aid with increase in national income averaged about .001. In other words of every 1,000 dollar increment in national income, on the average only one dollar was devoted to increasing aid. In Canada the figure was nearly 11 dollars, in Sweden 7 dollars, and in Japan about 5 dollars.

For the four major donors (U.S.A., U.K., Germany and France) taken together the figure was negative.

6. Since UNCTAD I it has become common to measure donor's aid performance against a target of 1% of national income, counting total net public and private financial flows as assistance. Both the numerator and the denominator of this target ratio are subjects of controversy. What should be included in "assistance"? Should this be related to gross national product or to national income? However, if we neglect these problems, there is an indication of a movement away from the target of 1%. Total official net flows of financial resources for all DAC countries declined from 0.72% of national income in 1962 to 0.57% in 1966. The total official and private flow in the same years was 1.02% and 0.88% respectively.

7. Net official aid as a percentage of government expenditure in DAC countries averaged 1.8% during 1961-65, and fell to 1.6% in 1965. This shows while government expenditures are increasing foreign aid is failing to increase proportionately.

8. The growth of assistance through multilateral agencies has been marked in recent years. Total multilateral assistance has increased from \$482 million in 1960 to \$1,393 million in 1966. Of total official bilateral and multilateral aid to LDCs, multilateral aid accounted for 11% in 1960 and for 23.5% in 1966.

9. The net official flows (including flows from multilateral agencies) to North African countries (Algeria, Morocco, Tunisia and Libya) have declined from \$673 million in 1961 to \$282 million in 1966. The sharp

decline is explained largely by the decline of assistance to Algeria. However, aid to Morocco and to Tunisia has also declined during this period.

Morocco \$117 million	(1961)	\$93 million	(1966)
Tunisia \$87 million	(1961)	\$72 million	(1966)

10. There is a wide disparity in per capita receipts of net official bilateral and multilateral assistance by developing countries. The French Departments and Territories in Latin America and in Africa received per capita assistance of \$131.0 and \$82.0 respectively in 1966. Liberia received \$49.0 per capita, Israel \$39.0 and Jordan \$36.0 per capita. In contrast Pakistan received \$3.7, India \$2.5, Nigeria \$1.7 and Ethiopia \$1.8 per capita in the same year. Among the North African countries, Algeria received \$9.8 per capita, Morocco \$7.2 and Tunisia \$18.0 per capita.

11. The real content of aid has been adversely affected by the increased reliance by donors on tied aid. Studies indicate that this may decrease the real equivalent of a given monetary amount of assistance by about 15%.

IV The Role of Trade

1. The acceleration of export earnings of LDCs would offset the relatively slow flow of capital from the developed countries. There was a marked acceleration in developing countries' total export earnings in recent years. According to GATT, whereas, the exports of developing countries increased by 23% or \$5 billion between 1953-54 and 1959-60, they increased by 41% or \$11 billion between 1959-60 and 1965-66. However, one cause for this acceleration in growth of exports was the rapid growth in demand for LDC exports from the developed countries which during first half of the sixties experienced exceptionally rapid growth. This emphasises the point that the acceleration of exports from developing countries is also governed by policies in developed countries.
2. The trade and protection policies of developed countries tend to discriminate against exports from developing areas. Studies by GATT and UNCTAD reveal that the recent tariff cuts in the Kennedy Round, are not going to be of much help to LDCs. This is the background for the idea of preferences for exports of manufactures from developing countries. However, most estimates indicate that a preferential reduction in tariffs would lead to an increase in exports of manufactured goods from LDC's to developed countries of only a billion dollars or perhaps less.
3. However, more exports alone would not solve the problem of developing countries for external resources for development. The estimates of the foreign exchange gap that have been made for LDCs assume fairly rapid increase in exports of the developing countries. For example the UNCTAD estimate for the gap assumes that exports from LDCs will grow at 5-5.6% per annum over 1960-1975, with exports of manufactures growing at 8.3-9.3% per annum.

Mr. George D. Woods

January 26, 1968

Irving S. Friedman

I asked Hulley and his Group to do something on the attached subject for me. It must be regarded as tentative since no one knows, as yet, how these restrictions are going to be administered.

The U.S. Balance of Payments Program for 1968

This is a summary of the program, to which are appended preliminary observations on ways in which it could affect the Bank Group and the less developed countries. Principal sources used were (1) Executive Order 11387 of January 1, 1968 "Governing certain capital transfers abroad;" (2) "Foreign Direct Investment Regulations", Commerce Department, published in the Federal Register, Volume 33, No. 1 of January 3, 1968; (3) "Guidelines for banks and nonbank financial institutions", Federal Reserve Board as published in its Press Release of January 1, 1968; (4) Newspaper reports and discussions with U.S. Government officials.

CONTENTS

- I. Purpose of the Program
- II. Elements of the Program
- III. Control of Direct Investment
- IV. Guidelines for financial institutions
- V. Possible effects on World Bank Group
- VI. Possible effects on less developed countries

Annex: Definitions of country groups

Table 1: Classification of IBRD members

Table 2: U.S. balance of payments program for 1968

I. Purpose of the Program

1. Because of a sharp deterioration in the U.S. balance of payments during the fourth quarter of 1967, the U.S. Government is strengthening its program to contain the outflow of dollars and gold. The goal is to reduce the deficit to a level of \$1 billion in 1968. The Federal Reserve Board points out that the measures "have been designed to focus the major effect ... on the developed countries of continental Western Europe without adverse effects on ... developing countries."

2. In preceding years the U.S. had already taken several steps to reduce net private capital outflows. In 1963 an Interest Equalization Tax was imposed on purchases from foreigners of securities issued in developed countries other than Canada; the tax is administered by the Treasury Department. In 1965 a program of voluntary restraint on foreign investment was launched; it is administered jointly by the Commerce Department (responsible for guidelines on direct investments) and by the Federal Reserve Board (responsible for guidelines on loans by financial institutions).

3. During the initial years of this program, the U.S. balance of payments improved from a deficit ^{1/} of \$3.9 billion in 1960 to deficits of \$1.3 billion in 1965 and \$1.4 billion in 1966. In 1967, however, the

^{1/} U.S. official estimates of the balance of payments deficit are prepared on two alternative sets of definitions. The older and more frequently quoted one is the "liquidity" basis; it adds changes in liquid liabilities to foreigners (an increase adds to the deficit) to changes in reserves. The figures cited in this note are on the liquidity basis.

situation started deteriorating again. On a seasonally adjusted annual basis the deficit increased from \$2.1 billion in the first quarter to \$2.7 billion in the third. Preliminary figures for the fourth quarter indicate a sudden further deterioration to a rate in the neighbourhood of \$8 billion on an annual basis. This would mean a deficit for the whole of 1967 of the same order of magnitude as in 1960, namely nearly \$4 billion. U.S. gold reserves which have been decreasing from a level of \$23 billion in 1957, dropped further by more than \$1 billion in 1967 to a level of US \$12 billion. This is about double the loss in 1966. About three-quarters of the loss occurred after the British devaluation. In his statement on January 1st, President Johnson indicated that the change was due to (a) rising costs for the war in Vietnam, (b) an increase in private loans and investment abroad, (c) a smaller than anticipated trade surplus, (d) a rise in tourist spending and (e) the "uncertainty and unrest" that went with the devaluation of the pound sterling. It has subsequently been reported that about \$1.4 billion of the approximately \$2 billion deficit in the fourth quarter was due to disposal by the U.K. of its dollar securities (\$500 million) and speculation and uncertainties (\$900 million). The President concluded that an enlargement of the balance of payments program was necessary.

II. Elements of the Program

4. New measures which have been announced are as follows:
 - (a) Direct Foreign Investment: The voluntary restraint program has been replaced by more severe, mandatory restraints. The reduction in the balance of payments deficit expected from this is \$1 billion. (This item is more fully described in Section III below).

- (b) Lending by Financial Institutions: The voluntary restraints on foreign lending are tightened; a reduction of \$500 million is expected. The Federal Reserve Board has been given authority to make this program mandatory should such a measure become desirable (This item is more fully described in Section IV below).
- (c) Foreign Investment in U.S.: Conversely, efforts to attract foreign investment in the U.S. will be intensified.
- (d) Tourist Expenditure: An appeal to Americans to "defer for the next two years all non-essential travel outside the Western Hemisphere", and possible legislation to discourage such travel are expected to reduce the deficit by \$500 million. Conversely the program to attract tourists to the U.S. will be intensified.
- (e) U.S. Government Foreign Expenditures; The foreign exchange costs of U.S. Government spending abroad are to be reduced by \$500 million.
- (f) Improvements in Trade Balance: A long range program to stimulate exports, if necessary with financial support, and negotiations with trading partners to adjust tax systems that discriminate against U.S. imports is expected to increase the trade surplus by \$500 million.
- (g) Domestic Surtax: Legislation is proposed for an income tax surcharge of 10%.

5. Grouping of Countries under the Program: The application of the restraints on direct foreign investment and lending by financial institutions is to discriminate between three groups of countries, (Table 2). The three groupings (see Annex) are:

- Schedule A: Less developed countries
- Schedule B: Developed countries outside continental Western Europe
- Schedule C: Developed countries in continental Western Europe

Schedule B includes the oil-exporting countries of the Middle East, as well as Bermuda, the Bahamas and Hong Kong. Spain and Portugal are included in Schedule C, while Finland, Iceland and Greece are in Schedule A. There are some differences in the treatment of certain countries in the different measures. Thus South Africa is in Schedule C for direct investment and in Schedule B for loans from financial institutions. Canada, Japan and the U.K. receive special treatment in the guidelines for financial institutions. Measures on tourism discriminate in favor of the Western Hemisphere.

III. Control of Direct Investment (including reinvested earnings):

6. The mandatory restraint on direct investment abroad in the three groupings of countries is as follows:

- Schedule A: Limitation of direct investment to an annual level of 110% of the investor's average investment in all Schedule A countries combined in 1965 and 1966.
- Schedule B: Limitation of direct investment to an annual level of 65% of the investor's average investment in all Schedule B countries combined during 1965 and 1966.
- Schedule C: A moratorium on all new direct investment. Limitation of reinvestment of earnings to 35% of the total average

direct investment by the investor in all Schedule C countries combined in 1965 and 1966.

Repatriation of Earnings

7. Each company that makes direct investments abroad must return to the U.S. at least once a year a share of its foreign earnings.

The amount is equal to the greater of:

- (a) The same percentage of the company's share of total earnings in each or any of the three areas as it repatriated during the years 1964, 1965 and 1966.
- (b) Earnings in excess of reinvested earnings (see paragraph 7 above).

Limitation of Liquid Balances

8. In addition, and to make the regulation concerning repatriation of earnings more effective, the Secretary of Commerce has issued a rule whereby each direct investor is required, on or before June 30, 1968, to reduce the amount of all bank deposits and other short-term financial assets held by him, to an amount not in excess of the average end-of-month amounts held by him during 1965 and 1966. The excess amount must be returned to the U.S.

Exception for Small Investors

9. The restrictions do not apply to direct investments abroad totalling not more than \$100,000 for any one investor.

IV. Guidelines for Financial Institutions

Commercial Banks

10. The new ceiling on foreign credits outstanding for 1968 is 103% of the amount outstanding on December 31, 1964, for all large

commercial banks. The banks are to reduce outstanding term loans (with original maturity exceeding one year) to Schedule C countries by not renewing them at maturity, and not using the proceeds to make loans to residents of these countries. Short-term loans (up to one year) to Schedule C countries are to be reduced during 1968 to 60% of the amount outstanding on December 31, 1967. Within the ceiling absolute priority is to be given to bona fide export credits. The next highest priority is to be given to loans to developing countries. Furthermore, the restrictive policies of banks should avoid an undue burden on Canada, Japan and the United Kingdom.

Non-banking Financial Institutions^{1/}

11. Total holdings of covered foreign assets (see paragraph 12) are to be reduced by 5% or more during 1968, below the level held on December 31, 1967. Holdings of liquid funds abroad are to be reduced to zero during 1968, even if this entails a reduction in total covered assets much larger than 5%. "However, an institution may maintain such minimum working balances abroad as are needed for the efficient conduct of its foreign business activities." No new investments in the Schedule C countries are to be made, except credits judged essential for financing U.S. exports.

12. The following assets are not covered by the program:

- (1) All bonds and notes of international institutions of which the United States is a member;
- (2) Long-term investments in Canada, Japan, and all developing

^{1/} These institutions include insurance companies, investment companies, finance companies, mutual savings banks, employee retirement and pension funds, college endowment funds, charitable foundations, trust companies and trust departments of commercial banks.

countries, including credit instruments with maturities exceeding 10 years at the date of acquisition, direct investment in financial subsidiaries, and equity securities issued by firms domiciled in these countries;

- (3) Equity securities of firms in developed countries other than Canada and Japan, acquired in U.S. markets from American investors.

V. Possible Effects on World Bank Group

IBRD

13. Although the IBRD is classified as a foreigner in the U.S. balance of payments, U.S. holdings of its bonds are exempt from the coverage of the guidelines. (Approval by the U.S. Government continues of course to be necessary for each new bond issue in the U.S.). According to the language of the guidelines,

"foreign financial assets not covered by the guidelines are still reportable on the quarterly statistical reports to the Federal Reserve Banks, but are not subject to ceiling limitations. Such non-covered foreign investments include...

1. Bonds and notes of international institutions of which the U.S. is a member, regardless of maturity."

In the early years of the balance of payments program, the Board gave out press releases on holdings of both covered and non-covered assets. It appears that some institutions may have been induced thereby to seek to reduce not only covered assets, but all foreign assets, including

IBRD bonds. As the Board has ceased to publicize holdings of uncovered assets, this particular incentive to reduce such holdings has been eliminated.

IDA

14. The U.S. Government is currently entering into negotiations with other Part I countries for a second IDA replenishment at the level of about \$400 million per annum for the next three years.

IFC

15. The new restrictions might have some effects on the investment plans of U.S. firms contemplating joint ventures with IFC. These effects will be similar to those on all U.S. investments in LDCs (which are discussed in Part VI below).

VI. Possible Effects on Less Developed Countries

16. U.S. Government officials state that the 1968 ceiling of 110% of the average of 1965 and 1966 was selected for new investment in LDCs because it was considered to be high enough to avoid strains on those countries. However problems may arise in such underdeveloped countries as Korea, Taiwan and Thailand where private investment has just recently become attractive to U.S. investors, and where official development plans for an important part are based on a rapidly increasing inflow of private capital; a strict administration of the rules could slow down the rate of development in such countries. A further complication is that the announced ceilings apply to individual investors. Companies which made relatively large investments during 1965 and 1966 may be planning little investment in 1968. On the other hand companies which made little or no investment during 1965-66 may have substantial plans

for 1968. It has been informally indicated that the U.S. Government may let potential investors in Schedule A countries use amounts within the ceiling not used up by the firms who already are established there. However, such switches could presumably not be effected without administrative delays in the flow of direct investment to LDCs. Furthermore, it is feared by some officials that the message that it is still possible to make direct investments in LDCs may not get through to many companies concerned, especially those which might benefit from switching or other administrative leniency.

Other Investments

17. Commercial banks are to reduce total foreign credits outstanding to 103% of the level on December 31, 1964 (compared to a ceiling of 109% in 1967). In effecting the necessary reductions, banks are again asked to avoid adverse effects on export credits as a first priority and on LDCs as a second priority. A similar explicit statement of priorities has not been made in the guidelines for non-bank financial institutions, although it was made in previous years. Thus it is possible that the reductions may affect credits to developing countries.

Tourism

18. The proposed cut in tourist expenditures of \$500 million could be damaging to those developing countries in the Eastern Hemisphere where the inflow of American tourist dollars forms an important portion of their total foreign exchange earnings, or where the development of a tourist industry is an important part of the overall development plan. Examples of such countries are those of the Mediterranean and East Africa.

Government Expenditures Abroad

19. A reduction of military foreign exchange costs and of AID expenditures abroad will be sought. The largest effects from these reductions are likely to be felt in East Asia.

ANNEX

(The following definitions are derived from regulations and guidelines issued by the U.S. Government. Their application to members of the Bank Group is shown in Table 1)

I. Direct Foreign Investment (from Commerce Department "Foreign Direct Investment Regulations", Federal Register, Volume 3, No. 1, 1968).

1. Schedule A countries include less developed countries i.e. all countries (except the communist ones) which are not Schedule B or C countries (see below).

2. Schedule B countries include Australia, the Bahamas, Bermuda, Canada, Hong Kong, Ireland, Japan, New Zealand and the United Kingdom and the following oil-producing countries: Abu Dhabi, Bahrain, Iran, Iraq, Kuwait, Kuwait-Saudi Arabia Neutral Zone, Libya, Qatar and Saudi Arabia.

3. Schedule C countries include South Africa and continental Western Europe but exclude Turkey, Greece and Finland.

II. Financial Institutions (from Federal Reserve Board, "Guidelines for banks and non-bank financial institutions", Press Release, January 1, 1968)

4. Developed countries are Abu Dhabi, Australia, Austria, the Bahamas, Bahrain, Belgium, Bermuda, Canada, Denmark, France, Germany (Federal Republic), Hong Kong, Iran, Iraq, Ireland, Italy, Japan, Kuwait, Kuwait-Saudi Arabia Neutral Zone, Libya, Liechtenstein, Luxembourg, Monaco, Netherlands, New Zealand, Norway, Portugal, Qatar, Republic of South Africa, San Marino, Saudi Arabia, Spain, Sweden, Switzerland, and the United Kingdom. Also to be considered "developed" are the following countries: Albania, Bulgaria, any part of China that is dominated or controlled by international communism, Cuba, Czechoslovakia, Estonia, Hungary, any part of Korea that is dominated or controlled by international communism, Latvia, Lithuania,

Outer Mongolia, Poland (including any area under its provisional administration), Rumania, Soviet Zone of Germany and the Soviet sector of Berlin, Tibet, Union of Soviet Socialist Republics and the Kurile Islands, Southern Sakhalin, and areas in East Prussia that are under the provisional administration of the Union of Soviet Socialist Republics, and any part of Vietnam that is dominated or controlled by international communism.

5. Developed countries of continental Western Europe include Austria, Belgium, Denmark, France, the Federal Republic of Germany, Italy, Liechtenstein, Luxembourg, Monaco, Netherlands, Norway, Portugal, San Marino, Spain, Sweden and Switzerland.

6. Less developed countries are all countries not mentioned in the above paragraphs 4 and 5.

TABLE 1

Classification of IBRD member countries according to U.S. Government
regulations and guidelines on investment abroad

Member Country	Classified in Schedule	Member Country	Classified in Schedule
Afghanistan	A	Kuwait	B
Algeria	A	Laos	A
Argentina	A	Lebanon	A
Australia	B	Liberia	A
Austria	C	Libya	B
Belgium	C	Luxembourg	C
Bolivia	A	Malagasy Rep.	A
Brazil	A	Malawi	A
Burma	A	Malaysia	A
Burundi	A	Mali	A
Cameroon	A	Mauritania	A
Canada	B	Mexico	A
Central African Rep.	A	Morocco	A
Ceylon	A	Nepal	A
Chad	A	Netherlands	C
Chile	A	New Zealand	B
China	A	Nicaragua	A
Colombia	A	Niger	A
Congo (Brazzaville)	A	Nigeria	A
Congo, Dem. Rep. of	A	Norway	C
Costa Rica	A	Pakistan	A
Cyprus	A	Panama	A
Dahomey	A	Paraguay	A
Denmark	C	Peru	A
Dominican Rep.	A	Philippines	A
Ecuador	A	Portugal	C
El Salvador	A	Rwanda	A
Ethiopia	A	Saudi Arabia	B
Finland	A	Senegal	A
France	C	Sierra Leone	A
Gabon	A	Singapore	A
Gambia	A	Somalia	A
Germany, Fed. Rep. of	C	South Africa *	C
Ghana	A	Spain	C
Greece	A	Sudan	A

* The Commerce Department classifies countries in Schedules A, B and C in its "Foreign Direct Investment Regulations." The Federal Reserve Board does not use these terms in its "Guidelines for banks and nonbank financial institutions." However, the "less developed countries" mentioned in the Guidelines are the same as the Schedule A countries; the "developed countries outside continental Western Europe" are the same as the Schedule B countries plus South Africa; the "developed countries of continental Western Europe" are the same as the Schedule C countries minus South Africa.

cont....

Member Country	Classified in Schedule	Member Country	Classified in Schedule
Guatamala	A	Sweden	C
Guinea	A	Syrian Arab Rep.	A
Guyana	A	Tanzania	A
Haiti	A	Thailand	A
Honduras	A	Togo	A
Iceland	A	Trinidad & Tobago	A
India	A	Tunisia	A
Indonesia	A	Turkey	A
Iran	B	Uganda	A
Iraq	B	United Arab Rep.	A
Ireland	B	United Kingdom	B
Israel	A	United States	-
Italy	C	Upper Volta	A
Ivory Coast	A	Uruguay	A
Jamaica	A	Venezuela	A
Japan	B	Viet-Nam	A
Jordan	A	Yugoslavia	A
Kenya	A	Zambia	A
Korea	A		

Table 2

U.S. Balance of Payments Program
for 1968

(for details, see accompanying text)

	<u>Less Developed Countries</u>	<u>Developed Countries</u>	
		<u>Outside Continental Western Europe</u> ^{1/}	<u>In Continental Western Europe</u> ^{1/}
	Schedule A	Schedule B	Schedule C
1. <u>Direct Investors</u>			
a) Total investment (includes reinvested earnings) as percent of 1965-66 average	110%	65%	35% ^{2/}
b) Limitation of liquid balances abroad to average 1965-66 levels	applicable in all foreign countries		
2. <u>Commercial Banks</u>			
a) Total claims	103% of December 1964 global total (compared to 109% in 1967)		
b) Term loans	Renewable	Renewable	Not Renewable
c) Short-term credit, as percent of end-1967 level	-	-	60%
3. <u>Non-bank Financial Institutions</u>			
a) Total investments, as percent of end-1967 level	95% global total, with exceptions ^{3/}		
b) New investments	Allowed	Allowed	Prohibited
4. <u>Government Expenditures Abroad</u>	Global reduction of \$500 million		
5. <u>Tourism</u>	Discouraged outside Western Hemisphere		

^{1/} South Africa is included under Schedule C in line 1 and under Schedule B in lines 2 and 3.

^{2/} Allowable out of reinvested earnings only, not from new capital funds.

^{3/} IBRD bonds and other bonds and notes of international institutions of which the U.S. is a member are exempt, as are equity investments and loans over 10 years in Canada, Japan and Schedule A countries.

DECLASSIFIED
JAN 26 1968
WASO ARCHIVE

January 26, 1968

Dear Arthur:

Servan-Schreiber's AMERICAN CHALLENGE arrived at the same time as your letter. Thank you very much for sending it to me. I am sure I shall have fun with it and look forward to passing it on to Ken.

Thanks for reminding me about a representative from the Economics Department going to New Delhi in connection with suppliers' credits -- this is being arranged.

Looking forward to seeing you in New Delhi.

Sincerely,

Irving S. Friedman

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

PERSONAL

DECLASSIFIED

January 26, 1968

AUG 16 2023

WBG ARCHIVES

Dear I.G:

I was very glad to learn that you are now recovered and I presume that you are back at work. I guess I should congratulate you on your new assignment as Economic Secretary. However, since it means more work I am not sure that a true friend would congratulate you. It is undoubtedly good for India and, in the world of the nation state, what is good for India is assumed to be a matter of congratulations to you! However, as an internationalist I am not sure that it is not more important to keep you alive and healthy! The invitation to do a year at Cambridge must have been very attractive and hard to turn down.

I am glad to learn that Alek has been spreading The Word in far countries. I am sure she did a splendid job and hope that she also enjoyed it personally. Of course, this means giving you an opportunity of being both a mother and father at the same time and, despite the difficulties, I bet it was fun!

By now the World Bank is getting used to the idea of McNamara becoming its head. I for one am very sorry to see George go, though I am pleased that it was a completely voluntary decision on his part. He seems to have enough courage not only to know when to quit, but actually to do so.

I am somewhat concerned about the future of the economic work here, particularly its role in promoting innovation. Like any established institution innovations are not quite welcomed by everybody. I do not think I would even have had limited success without the strong support given by George to the entire effort. Perhaps, what little we have accomplished thus far would best be served by my leaving the institution. In this way the new President would have a chance to choose his Economic Adviser, and the person so chosen would have the same advantage as I have had, namely that the others would know that he enjoyed the full confidence, and presumably support, of the President. I am afraid that otherwise any attempt to argue for the continuous strengthening of the economic work sounds like an exercise in self-pleading. Anyway, I am getting too worn out to continue the pace of work I have had here, and I can only see it getting worse.

I do hope to be coming out for the UNCTAD Conference, at least for a little while. At the moment I am planning about ten days from about February 25 to March 7 or so. I am mostly coming to have a chance to

talk to you and others about India, and to do what little I can to explain further our supplementary finance scheme.

I was very interested in your news about the Patel family. You and Alek will surely have many places to visit, if only you can get yourself away from the work.

Our own family is fine. Ken has returned from Paris and is now back at college. John has not yet heard from any of the colleges, but is in a more optimistic mood at present -- perhaps it is not optimism but a realization that he has done all he can.

Please give our best to Alek.

With best wishes for 1968,

Sincerely yours,

Irving S. Friedman

P.S. I am looking into the question of Dr. Sen, but have been so busy with McNamara's coming and related things that I have not been able to do much yet, but promise to do so.

Mr. Mervyn L. Weiner

January 26, 1968

Irving S. Friedman

COLOMBIA - Distribution of Economic Report to Executive Directors and
Consultative Group

In reply to your memorandum of January 24, I have been following the procedure that where it is not necessary we should not call for an economic committee meeting. However, I think that any economic report going to the Board reviewing the current situation and outlook is important enough to be the subject of, at least, a special meeting. I have been having smaller meetings in my office with representatives from the Area Department and Economics Department, and anyone else interested.

I would, therefore, appreciate it if you would have your secretary arrange with mine a time for such a meeting -- leaving an hour for discussion. Essentially, the agenda for such a meeting is whether we are all in agreement on the conclusions of the economic report, since I assume that the actual review of the report itself will have been finished.

cc: Mr. Adler
Mr. Collier
Mr. Sacchetti

January 26, 1968

- | | |
|------------------|-----|
| 1. Mr. Stevenson | 800 |
| 2. Mr. Clarke | 200 |

Would someone prepare a suitable reply
for me - thanks

Irving S. Friedman

(letter from Irving Brecher's son -
Richard A. Brecher - asking for summer work.)

JAN 26 1968

BANK-FUND COOPERATION

Mr. Friedman said that the economic work on Indonesia was an outstanding example of Bank-Fund cooperation, worthy of special mention. This was reflected in many ways including the full participation of the Fund experts in the Economic Committee deliberations on Indonesia, now taking place. Incidentally, the participation of Fund staff in meetings of the Economic Committee had now become routine.

Mr. John Hulley

January 25, 1968

Irving S. Friedman

U.S. Treasury book "MAINTAINING THE STRENGTH OF THE UNITED STATES DOLLAR
IN A STRONG FREE WORLD ECONOMY"

Could you please obtain two copies of the above book - copy
of which has already been passed to your office - and let me have them.
The copy already sent to you, should be retained in your office.

1 copy to Irving
1 copy to Paul Chambers
1/30/68

January 25, 1968

Mr. de Fontenay

1021

Has anything more happened on this?

Irving S. Friedman

(Meeting of French-speaking African
countries.)

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AUG 16 2023

January 24, 1968

PERSONAL

WBG ARCHIVES

Dear Douglas:

I was very pleased and proud to read the newspaper report on your going to the Treasury. Were it someone else I might comment on the fact that you were taking over during the most difficult period in the economic history of England. But to you I would rather say I am glad that you have this opportunity because I am completely convinced that the present Gordian knot in which the world is tied must be cut decisively and intelligently in the period ahead. It is going to take some bold strokes, but I am profoundly convinced that practical solutions will be found by capable people to restore Britain to the position in which it can help the world, as well as Britain, be a better place in which to live.

I am most appreciative of the insights you have given me for many years -- most recently during the last year -- into the realities of your country. As a result I think I am not naive about these difficulties. But despite it all, including what has been happening in my own country, I have not yet dispaired of finding a way to turn around the unfavorable world trends. Indeed I envy you your opportunity to make an important contribution to turning this tide. If in any way I can be of help, please let me know.

With best wishes for the New Year,

Sincerely yours,

Irving S. Friedman

Sir Douglas Allen
Department of Economic Affairs
Storey's Gate
London SW 1

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PERSONAL

AUG 16 2023

January 24, 1968

WBG ARCHIVES

Dear William:

May I add my congratulations to the many others on your appointment. All would agree that it was the finest selection and most deserved. It will seem odd for you not to be on the financial and economic side of the Treasury, particularly in view of the great many problems in which you have been involved over the years, but your new job sounds like an opportunity to make an enduring contribution to Britain. Will you be at all relieved from the life of the "quickie decision" characteristic of a Treasury official?

I do hope that we will continue to have occasions to see each other, whether in London, Washington, or elsewhere.

With best wishes for the New Year,

Sincerely yours,

Irving S. Friedman

Sir William Armstrong
H. M. Treasury
Great George Street
London SW 1

January 24, 1968

Dear Mr. Prasad:

Thank you for your letter of January 4. I am pleased to enclose a copy of my address to the Canadian Political Science Association entitled "International Problems of Economic Development". I am also sending a list of other publications available from the Bank.

On your request for references that may be useful in preparing your research paper, I feel that the best course would be to supply you with a representative sample of recent publications in this field including books, articles and statistical material. Many of the books listed - for instance International Aid by Little and Clifford - contain selected bibliographies; some of these are quite exhaustive.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. D. N. Prasad
Reader in Economics
Vardhaman College
Bijnor (U.P.)
India

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January 24, 1968

AUG 16 2023

PERSONAL

WBG ARCHIVES

Dear Wilfried:

I gather you have now taken on your new responsibilities. Please accept my warmest congratulations. It must be good to have the period of uncertainty over and to begin to immerse yourself in your new work. I would, of course, be most interested to hear from you -- when you have the chance -- to learn more about your new life. Among other things I hope that it means far more occasions for you to come to the United States and Washington. I am getting a good deal of personal satisfaction and pride from your appointment.

As you know we seem to be getting to the last stage of the race for IDA replenishment. George came back from Germany convinced that agreement should be found as quickly as possible, and I fully agreed. Needless to say I am despondent with the magnitude reached, although I do get some pleasure from the fact that the balance of payments safeguards we are now discussing are of a much less difficult character and are regarded by all as not establishing a precedent. Of course, I am well aware that anything that is actually begun may become a precedent, but if things change in the next couple of years and the next IDA replenishment has no payments safeguards, perhaps the present replenishment will prove to be the exception -- I hope so.

History tends to be so ironic. At the very time when the World Bank had a President who was prepared to give vigorous and creative leadership this proved to be the very years in which leadership was most difficult for objective reasons external to the Bank. I wonder if ever before in history we have had so many countries pursue wrong economic policies simultaneously? I bemoan the fact that the international monetary system, which seemed to be the one area in which we were creating something that was distinctly separate from the political arena, is now deeply involved in international politics. It makes one wonder whether these strenuous efforts in the field of public policy are really worthwhile. However, I am not complaining as these developments have made life exciting both in the Fund and in the Bank.

In the Bank, of course, the central topic of interest is McNamara and the implications of his coming over to the Bank. For reasons I need not spell out to you, I am very sorry to see George go. Much of what he has done will, I am confident, bear fine fruit in the future. I hope that, at that time, there will be some who will still remember the efforts he made to initiate these developments. As for myself, as you can readily imagine I am giving deep thought to whether I want to stay on. I am convinced that to do my job successfully and

January 24, 1968

with any sense of personal satisfaction, it is necessary to have the full confidence and strong support of the President. It is a unique relationship in the Bank, since it does combine executive functions with advisory functions in an area of activity that is of significance in virtually all that the Bank does. As an innovator of practical policies -- and I think that is my main job -- I inevitably come up against the resistance of those who see no reason for innovation or, if they do, think that it is wrong. You know the people, so I feel I don't have to elaborate the point. I do not want to stay on to do a routine job -- the fun I get is being the innovator as well as the analyst and adviser. The Bank has proven stimulating, educational and worthwhile. On balance I don't regret having accepted George's invitation to come. I have no prejudice whatever against McNamara, from all I hear he should be a very fine President and a challenging person with whom to work. However, as I said before, I don't think that my present job can be done by anyone unless it has vigorous help from the President. I hope that I don't sound concerned or worried, because I am really not. As so many times in the past, I wanted to share these thoughts with you, and regret conversation is difficult to arrange.

Please give our warmest regards to Ruth. Our family is doing fine.

With best wishes for the New Year,

Sincerely yours,

Dr. Wilfried Guth
Fasanengarten 15
Koenigstein in Taunus
Frankfurt a main
Germany

January 24, 1968

Dear Dr. Cheng:

I am sorry I was not able to see you when you were in Washington recently. I am terribly busy these days.

I am bringing your paper to the attention of other interested colleagues and will let you have their comments*in due course.

With kind regards,

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Dr. Hang-Sheng Cheng
Associate Professor
Iowa State University
Department of Economics
Ames, Iowa 50010

*As well as my own.

*Burros. to file
Report to Mr. Halliday
1/25/68*

January 24, 1968

Dear Joe:

I acknowledge receipt of, and thank you for, your letter of January 18 and its attachment entitled "MAINTAINING THE STRENGTH OF THE UNITED STATES DOLLAR IN A STRONG FREE WORLD ECONOMY."

I feel certain that release of this important document at this time will add a new dimension to current public discussion on the program for achieving equilibrium in the balance of payments of the United States, and will lead to a better understanding of the nature and working of the international monetary system. Your plea for coordinated multilateral action to ensure further growth and prosperity for all nations of the free world is one that responsible and discerning people everywhere will readily support.

With best wishes,

Sincerely,

(Signed) George D. Woods

George D. Woods

The Honorable
Henry H. Fowler
Secretary of the Treasury
Washington, D.C.

ISFriedman/DLBudhoo:rgw
January 23, 1968

Mr. Alexander Stevenson

January 24, 1968

Irving S. Friedman

I.F.C. and Financing of Commodities

I notice that at the next meeting of the I.F.C. Executive Directors they are going to talk about the financing of commodities. Is that a continuation of the study that Gertrude Lovasey was doing?

Mr. Stevenson phoned
Mr. Friedman 30/1/68 - in same respects
but Raj is pushing his paper.

Mr. George D. Woods

January 19, 1968

Irving S. Friedman

World Bank Group - Next Steps in Economic Work

On December 15 I sent you a draft memorandum on the progress thus far in transforming the World Bank Group into a leading development institution. In this memorandum I will try to focus on what the World Bank Group might do next in the economic field. Most of the suggestions represent an extension or improvement of the work which is already going on. There are, however, a few subjects which may require the initiation of new work.

1. Economics of Project Selection and Evaluation

I will not try to comment on the possible improvement from an economic viewpoint in the work of project selection and evaluation. Similarly I will not try to comment on the possible extension of the World Bank Group lending activities into new areas such as housing, tourist facilities, etc. despite the economic importance of these matters. I presume these matters will be covered in the memorandum which is being prepared for you in the Projects Department. I would, however, like to say that I have been gratified with the increasing acceptance of the approach that the economic evaluation of a project can only intelligently take place against the background of an evaluation of an entire sector and its relationship to other sectors of the economy. In talking about 'cost and benefit' what we should be more and more talking about are not only financial returns relating to a project but also 'developmental returns' for the whole economy. This is especially important since I believe that the World Bank will be called upon increasingly to help other possible investors -- public and even possibly private -- to identify and even evaluate economically desirable investments. Moreover, as international capital resources are becoming relatively more scarce while the ability of developing countries to make effective use of capital production investments have greatly improved, more importance will be attached to the economic advantages of any investment in a country as compared with other possible uses in that country and/or in other countries. This inter-country comparison of the economic efficiency of potential investments is a very difficult question and I believe that more and more of our economic research effort or the research effort we help inspire outside the Bank, will have to go into these kinds of questions, otherwise the investment decisions or recommendations to others by the World Bank Group are going to be open to serious challenge.

2. Country Economic Research Work

The economic country work has now reached a point where the detailed fact-finding stage has been largely completed. This work has revealed that in quite a large number of countries the information available is not good enough for serious investment decision-making. For the time being there is no practical choice except to do one's best in reaching economic conclusions by using available information with sophisticated use of judgment by economists with experience in these matters. However, there is growing worldwide recognition

by the economists and statisticians of the great need to improve our basic economic knowledge of the LDC's. The World Bank Group is likely to become part of this worldwide effort to obtain the data needed to judge economic situations and policies as well as select and evaluate projects. Our international character means that our economic work will always be subject to the most careful and critical scrutiny by experts elsewhere. There is the fortunate circumstance that computer techniques can greatly reduce the man hours necessary to do a good job. We have already started making use of these facilities as well as increase our knowledge of hitherto relatively neglected questions such as population policies and defense expenditures, but it is necessary for this purpose to continuously improve the scientific skill of the staff as well as the availability of mechanical facilities.

3. Country Economic Policy Work - Performance Standards

The concept of insisting on reasonably good economic performance as a pre-condition for World Bank loans or IDA credits or recommendations to consultative groups or consortia, is now widely accepted. In practice, however, more has to be done to ensure that special reasons are not too often found for making particular loans and credits, which in effect invalidate the performance criteria. The Bank's reputation in this field now stands high because it is generally believed that we do a very careful job in arriving at our judgments on economic performance and that we are sufficiently courageous and non-political to implement such policies in practice. This job of evaluating country performance has become all the more important because of our leadership role in consortia and consultative groups. The burden on our policy judgments and advice being 'right' is greater. Therefore, in addition to our current work in the Economic Committee, we are also rethinking what our performance criteria should be in the future. It is also important to ensure that the mechanism for implementing the economic policy decisions on a country, in the course of the Bank's many varied kinds of activities, works well. This is particularly important as the World Bank Group moves in the direction of thinking in terms of "programmes" implemented over time rather than separate project investments. We have made a beginning on this in establishing some follow-up procedures. However, much more will have to be done. This might well involve less time spent on doing long economic country reports and more time spent on implementing agreed policies on economic performance or adapting such policy attitudes to changed circumstances.

4. External Indebtedness

The external debt problem has been with the Bank for many years. The Bank has been involved in various ways in the external debt crises of countries. The most recent and outstanding case is the present Indian debt re-scheduling exercise. At present, the less developed countries as a group are making service payments on public and publicly guaranteed debt of about \$4 billion a year, of which about \$2.8 billion is for amortization and about \$1.2 billion is for interest, and this level has been rising steadily. This represents nearly half of the gross public flows into LDC's. The problem is no longer isolated and is a major aspect of the whole problem of development finance. A successful overall attack on this problem could provide an important source of development finance. Thus the world may well be approaching the point when a piecemeal approach to the debt problem is no longer sensible and a systematic coordinated approach

to the problem, based on some acceptable international criteria, needs to be undertaken. Whether or not the World Bank Group should take the lead in this exercise is difficult to say at this time -- there are obvious arguments pro and con. However, it would seem safe to say that in any case the World Bank will have to play an important part, not only because it is one of the world's major creditors of the LDC's, but also because its international character and reputation might make it the one body (acting in some way with the Fund) countries would be willing to entrust with this task.

5. Private Capital Flows

Restrictions placed on the outflows of private capital for certain purposes by the United States and intensification of such restrictions by the United Kingdom, heighten the importance of the role of the already scarce private capital and how it might be most efficiently used in the developing countries. The World Bank Group may well find private firms of the developed countries eager to associate themselves with the activities of the IFC or the World Bank in the hope that this might help them obtain a more favorable reaction from the U.S. authorities when requesting permission to make direct investments abroad. Similarly, in making judgments on countries' economies, we may find the U.S. authorities administering the capital controls paying close attention to what the World Bank studies are saying about the significance of private foreign capital for the developing countries as one element in their decision making. In this and other ways, these changed conditions may affect the work of the World Bank Group. For the economic work, it may well mean much closer attention to the investment activities of the private foreign sector.

6. IDA Replenishment - Questions for Consideration before Third Replenishment

The World Bank staff have accumulated a considerable amount of experience in the last three years of the IDA replenishment exercise. We have learned how to estimate the needs and effective use of development finance and more particularly of concessional aid. Much of this kind of work has now become a regular bi-product of the economic work on countries and the statistical work of the Economics Department. At the moment we are preparing a paper on criteria to guide the use of IDA funds for future discussions by the Executive Directors. However, in addition, the IDA exercise also indicated that a number of questions of a broad policy nature, though of less immediate importance, could profit from re-examination, before the third replenishment exercise. These include:

- (a) What should the relative burden sharing in contributions to IDA be, since the dramatic changes in the world economy have clearly made the present divisions arbitrary and fundamentally irrational?
- (b) The problems which arise from the linking of contributions from one donor to another, or in other words, how to overcome the "slowest boat in the convoy" as a consequence of this linking. Closely related is the role of the Bank contribution.
- (c) How to cope with the problem of countries that simply refuse to consider the magnitude of their contribution to IDA separate from their

other contributions to development finance (including contributions which take place indirectly from the maintenance of high prices in their markets for certain exports of the less developed countries).

(d) How to cope with the possible requests of governments that they have special problems, i.e. balance of payments, budgetary, monetary, or others which donors ~~disclaim~~ ^{claim} impair their ability to contribute to what might otherwise be regarded as a reasonable magnitude to IDA.

(e) How to make effective use of the local currency contribution of the Part II countries, a subject to which the President of IDA has repeatedly invited thoughtful attention.

(f) How to reconcile the desire of donor countries to play a greater role in the formulation and implementation of IDA policies with the desire to maintain the independent character of IDA and its reputation for objective non-political approach to development finance. (This may arise in the more immediate future.)

(g) The encouragement of more supplemental contributions from donor countries and "special" partnership relations in which contributions from donor countries are combined with IDA funds to serve objectives which IDA regards as being of high priority in a manner compatible with the operating practices of IDA. It may well be found that the growth of IDA may come not only in the form of increasing its general pool of resources but also in the form of special funds given for special purposes such as rehabilitation of Indonesia, special projects in the Middle East, transportation in Africa, Supplementary Finance, Buffer Stocks, etc. Such funds might come from a completely different combination of countries with different proportions in burden sharing than in the general replenishment. Indeed it is conceivable that they might come from one country as long as there were no strings attached to their usage. In effect it would be kinds of supplemental contributions ~~from Sweden but of a much different character~~ but of a much different character, as from Sweden's.

7. World Bank Borrowing

Aside from the "financial" aspects of World Bank borrowing, we may need to devote even more attention to conditions in capital markets, different ways and means of raising capital, reserve positions of Central Banks, regulations and restrictions on foreign investments, budgetary situations, balance of payments positions and outlook, etc., because of the great changes in the world economy. (We have demonstrated that the World Bank helps the U.S. balance of payments position, but this is the sort of question on which we will need to keep on working so long as the underlying problem continues.)

8. Supplementary Finance

It seems likely from the latest information that there will be an agreement on the forthcoming UNCTAD Conference to keep alive the Supplementary

Finance proposal (and perhaps in some way to relate it to IDA), while at the same time avoiding the question of asking for finance during a period when IDA and other requests for funds are before the U.S. Congress and other legislatures. Until now, all countries participating in these discussions, whether developed or undeveloped, have agreed that if there is to be a system of supplementary finance, it should be in the IDA because it is part of the picture of development finance, requiring the same kind of expertise and involving financing facilities on similar terms and conditions. Thus, there is at least the possibility that IDA will be asked the question whether it is prepared to administer a program of this kind and on what conditions. I do not, however, see any deliberations on this matter taking place, in any case at the Board level in IDA, until the end of 1968 or 1969, with staff work going on after the UNCTAD Conference in preparation for such discussions.

9. Commodities

The study on commodities requested at Rio has aroused worldwide interest and expectations. We are proceeding with these studies and should be able to have a Board discussion of our outline in February or March. It is too early to say whether we will have something finished for the next September Conference.

Partly as a result of the discussions on supplementary finance and partly as a consequence of the utter frustration so far in being able to reach agreements on international commodities, e.g. cocoa, there is a growing feeling in authoritative government circles that in some way or another the World Bank Group ought to be doing something about the commodity problem in a manner that goes way beyond anything we have considered thus far. What is being suggested is that even such questions as international agreement on production quotas and export quotas should be considered within the framework of the World Bank Group. The reason given is essentially that the problem of instability of commodity prices has no other sound solution except by diversification, which is another name for development. To achieve this diversification it is necessary to have an effective institution where countries could meet and decide things together with the help of an international staff. The Coffee Diversification Fund proposal is an example of this kind of thinking. These views are current in governments, including at the highest official levels in the United States Government. This is not a prediction that we will be doing this kind of work but that we should at least be prepared to give consideration to all sorts of suggestions in this field.

10. Vietnam Reconstruction

In September 1965 at the Governors' Conference the Vietnam authorities approached the Bank as to whether we would be prepared to play a role in the reconstruction of Vietnam. At that time we said that we would be prepared to consider playing a role in the reconstruction process when hostilities came to an end. When the Vietnam hostilities do cease, it may well be the World Bank will be called upon to play a role in the reconstruction process. The Asian Development Bank exists, but for a number of years the staff is likely to be quite inadequate for such a major assignment and, of course, both institutions, as well as the Monetary Fund in its area of specialization,

might well be involved simultaneously.

11. "Post-Vietnam" Planning

It will be recalled that about two years ago we developed some thoughts on the desirability of the United States Government doing some "post-war" planning in the field of development even during the period of the Vietnam hostilities. The memoranda embodying these thoughts were circulated to various U.S. senior officials on a personal basis and some informal discussions took place. The end of the hostilities in Vietnam could release large sums of monies for development and might provide a much more favorable political and public environment for such activities all over the world as well as in Vietnam. I believe, that we should consider setting up a small group within the Bank to do this kind of forward thinking. Fortunately, much of the spade work is done in our economic reports. If nothing else we might avoid falling into the error of assuming that things that are worthwhile doing but are simply inconceivable under present circumstances are not even worth a current effort to prepare to do these in the future. It is an obvious lesson from experience in development finance that nearly anything worthwhile doing takes years to prepare. We should have in effect a "shelf" of worthwhile proposals of both a general character and of specific investments that might be brought forward if we were to find ourselves in a new period of much greater capital availability.

12. Relations with Soviet Countries

There are many reasons for increasing our knowledge of the Soviet countries, including the possibility that some will become members of the World Bank Group. We have taken steps to begin this work and may expect it to become of increasing importance in the coming years. This increased knowledge may, among other things, help in coping with possible difficult problems of member relations.

Mr. John Hulley

January 18, 1968

Irving S. Friedman

Would you please look in the latest issues of Le Monde to see whether there has been any report about the meeting which has been taking place, or took place recently, in Africa of the French speaking countries.

Thanks.

To: Mr. George D. Woods

JAN 16 1968

From: Irving S. Friedman

Subject: World Bank Group as Leading Development Institution

On December 15 I sent you a memorandum on the progress thus far in transforming the World Bank Group into a leading development institution. In that memorandum I did not try to focus on what the World Bank Group might do next as I have in memoranda in previous years. I think it might be useful if I were to express some ideas as to what the World Bank Group might do next from the viewpoint of what are the present problems which the World Bank Group might legitimately be expected to try to cope with either by the developed countries or the less developed countries. These, of course, range quite widely from subjects which are already being handled by the Bank to those which are quite novel. For convenience I have tried to separate the topics under two broad categories: I The Improvement and Extension of Existing Work; and II New Work.

I. The Improvement and Extension of Existing Work

I will not try to comment on the possible improvement from an economic viewpoint in the work of project selection and evaluation since this presumably will be covered in the memorandum which is being prepared for you in the Projects Department. I would, however, like to make the comment that I have been gratified with the increasing acceptance of the approach that project evaluation from the viewpoint of economic science can only intelligently take place against the background of an evaluation of an entire sector and its relationship to other sectors of the economy. This does increase the burden of economic evaluation in making any cost benefit analysis, but, on the otherhand, the use of mere standard procedures of obtaining information and methods of analysis enables the greater use of computer techniques, thus reducing the time necessary to find answers to these difficult economic questions. Moreover, I believe that the World Bank will find that it is not only called upon to judge the wisdom of its own investments in particular sectors, but also increasingly to help other possible investors --

public and even possibly private -- to identify economically desirable investments. (Whether we would be prepared to even go so far as to help evaluate such potential investments is still another question.) Moreover, as international capital resources have become relatively more and more scarce because of the increasing ability of developing countries to make effective use and capital production investments, our economic judgments on the advantage of investments, either directly by the World Bank Group or indirectly in advising through Consultative Groups, the Bank is going to have to take into consideration the basic question of all economic science, namely what alternatives have to be come up with in order to make a certain investment? These alternatives will be found in other countries as well as within any one country. This inter-country comparison of country investments is a very difficult question for economic science if done carefully and is to be taken seriously. I believe that more and more of our research effort or the research effort we help inspire ~~xxxxxxx~~ outside the Bank, will have to go into this question, otherwise the investment decisions or recommendations by the World Bank Group are going to be open to serious challenge.

The economic country work has now reached a point where the fact-finding stage in depth has been largely completed. This work has revealed that in some countries the information available is not good enough for serious investment decision-making. For the timebeing there is no choice except to do one's best on the basis of available information with sophisticated use of judgment by people with experience in these matters. However, there is growing worldwide recognition by the economists and statisticians of the need to improve the manufacture(?) and collation of economic data relevant for the investment decision-making process. The World Bank Group is likely to become ^{part} ~~part~~ of this worldwide effort to obtain the necessary data here on the international economic level as in the case of evaluation of the economic costs benefits of the project. There is the fortunate circumstance that computer techniques can greatly reduce the man-hours

necessary to do a good job. However, it is necessary ~~that~~ for this purpose to continuously improve the scientific skill of the staff as well as the availability of mechanical facilities, since technological innovation in this field is rapid.

The concept of insisting on equally good economic performance as a pre-condition for World Bank loans or IDA credits is now widely accepted. In practice, however, more has to be done to ensure that various reasons are not found for making particular loans and credits, which in effect invalidate the performance criteria. The Bank's reputation in this field now stands high because it is generally believed that we do a very careful job in arriving at our judgments in performance and that we are sufficiently cautious and non-political to implement such policies in practice. We have never tried to have absolute and ridged standards of perfection. However, we have tried to have flexible but still high standards which could stand up to international scrutiny and potential criticism, particularly from various creditor and donor countries and institutions. Moreover, we have now entered the stage where we have to learn more about how to ~~inter-relate~~ ^{inter-relate} continuing programs of investment with our performance criteria. Changes desired by the Bank in economic policy may cover a wide variety of subjects and ~~may~~ adopted over a considerable period of time. At the same time we may be considering a series of loans or credits and/or making recommendations to consultative groups or consortia. The problem of inter-relating investment decisions by the Bank or its recommendations to various kinds of caring groups is manageable, but it means that the mechanism for ensuring that the economic policy decisions on a country are implemented in our varied kind of potential activities, works well. We have made a beginning on this and it is reflected in many ways, including the changed character of the economic section in the President's Report. However, it is only a beginning and much more will have to be done. This might well involve less time spent on doing long economic reports and more time spent on implementing agreed policies on economic performance or adopting such policies to changed circumstances.

The external debt problem has been with the Bank for many years. The Bank has been involved in various ways in the debt crisis of countries. The most recent and outstanding case is the present Indian debt re-scheduling exercise. At present, the less developed countries as a group are making services payments of about \$4 billion (? check with Levy) a year of which about _____ billion is for merchandise and _____ is for interest. The debt problem can thus be seen as a means of reducing the burden on the balance of payments of many countries, or conversely as another technic for raising development finance since free foreign ~~exchange~~ exchange would be released to the extent that external debt was re-scheduled. The World may well be approaching the point that an abysmal approach to the debt problem is no longer sensible and instead a systematic simultaneous approach on the problem, based on some international criteria, would be undertaken. Whether or not the World Bank Group took the lead in this exercise is difficult to say at this time -- there are obvious arguments pro and con. However, it would seem safe to say that whether the World Bank took the lead or not, it would have to play an important part, not only because it is one of the World's major creditors of the less developed countries, but because of its international character and reputation might make it the one body (acting in some way with the Fund) that would be regarded by all countries as the institution to which they were willing to entrust this task.

The World Bank Group has already done a great deal to encourage the outflow of private capital. This is regarded not only in the work of the IFC and the establishment of the Center for the Settlement of Investment Disputes, but also in our work with individual countries. Although we try to avoid giving the impression that we are biased against the public sector, we have not hesitated to make clear in many different cases how strengthening of the private sector, including a strong more foreign capital, was regarded by us as essential. A country which was not making appropriate use of the private sector might well be

regarded by the World Bank Group as not having satisfactory economic performance policies. The problem, however, has now become much more complicated by the restrictions placed on the outflows of capital for certain purposes by the United States and past restrictions by the United Kingdom. Coming at the same time as the flows of official aid are being held down in a number of the largest countries, the whole extent of the availability of private capital and how it might be most efficiently mobilized and used in the developing countries will become increasingly more complicated and critical. For example, we may well find private firms of the developed countries eager to associate themselves with the activities of the IFC or the World Bank in the hope that these might help them obtain a more favorable reaction from U.S. authorities when requesting permission to make direct investments abroad. Similarly, in making judgments on countries we may find the U.S. authorities paying closer attention to what the World Bank economic studies are saying about the significance of private foreign capital for the developing countries when considering ~~financ~~ financing policies. Still another example, is the repatriation of capital which originated in the developing country but which was invested in various assets or enterprises in the United States as a means of capital flight, but which they now wished to return in part because of availability of other sources of funds. Another complication is the growing role of the Eurodollar and the development of new finance institutions, particularly outside of the United States. The capital shortage could also lead to increased pressures for increasing suppliers' credits or bringing about further changes in the terms, particularly the maturities of such credits. This is an area in which the Bank has been accumulating a certain amount of expertise as evidenced by our Suppliers' Credit Study which we did in response to UNCTAD's request and in our own operations, e.g. joint financing. We may, however, find it necessary to broaden and deepen our knowledge in this field if the Bank is to be able to perform satisfactorily its role as the World's Development Finance Institution.

The World Bank staff have accumulated a considerable amount of experience in the years of the IDA replenishment exercise. We have learned the value of the careful preparatory work which was done in estimating the needs and effective use of development finance and more particularly of concessional aid. This kind of work will presumably have to be continued, but much has now become a by-product of the regular economic work on countries and the statistical work of the Economics Department. However, the IDA exercise also indicated that a number of questions of a broad policy nature would need re-examination. These include:

- (a) The problems which arise from the linking of contributions from one donor to another, or in other words, how to overcome the slowest boat in the conveyer as a consequence of this linking.
- (b) How to cope with the problem of countries ~~xxxxx~~ that simply refuse to consider the magnitude of their contribution to IDA separate from their other contributions to development finance, including contributions taking place indirectly from the maintenance of high prices in ~~the~~ their markets for certain exports of the less developed countries.
- (c) How to help create better public understanding of the World Bank Group so that there is more public support for a large increase in IDA resources, which remains necessary, and may well have to be argued all over again in future replenishment.
- (d) What should the relative burden sharing in contributions to IDA be, since the dramatic changes in the world economy have clearly made the present divisions arbitrary and fundamentally irrational?
- (e) How to reconcile the desire of donor countries to play a greater role in the formulation and implementation of IDA policies without destroying the independent character of IDA and its reputation for objective non-political approach to development finance.
- (f) How to cope with the possible requests of governments that they have special problems, i.e. balance of payments, budgetary, political, or other donor countries

character which impaired their ability to contribute to what might otherwise be regarded as a reasonable magnitude to IDA. Closely related is a serious attack on the question of making effective use of the local currency contribution of the Part II countries, and the encouragement of more supplemental contributions from donor countries and "special" partnership relations in which contributions from donor countries are combined with IDA to serve objectives which IDA regards as subjects of high priority with countries in the operating practices of IDA. It may well be found that the growth of IDA in terms of its lending authority may come not only in the form of increasing its general appeal for resources but also in the form of special funds given for special purposes such as rehabilitation of Indonesia, special projects in the Middle East, transportation in Africa, Supplementary Finance, Buffer Stocks, etc. Such funds might come from a completely different combination of countries with different conceptions of sharing in the general replenishment. Indeed it is conceivable that they might come from one country as long as there were no strings attached to their useage. In effect it would be another kind of supplemental contribution as IDA has already obtained from Sweden, but of such a different character as perhaps to merit consideration among the ~~xxxx~~ next listed below, as new developments.

Supplementary Finance and Commodity Stabilization Studies

It seems likely from the latest information that there will be an agreement on the forthcoming UNCTAD Conference to keep alive the Supplementary Finance proposal and in some way to relate it to IDA, while at the same time avoiding the question of seeming to ask for money at a time when IDA and other requests for funds are before the U.S. Congress and other legislatures. Until now, all countries participating in these discussions, whether developed or undeveloped, have agreed that if there is to be a system of supplementary finance it should be in the IDA because it is part of the picture of development finance, requiring the same kind of expertise in working the judgments and involving financing facilities on similar

terms and conditions. The question whether this should be done by the IMF has been carefully considered by the countries and we have been most cautious in not borrowing the idea that it should be done by IDA. This, of course, could change, but there is at least a strong possibility that IDA will be asked the question whether it is prepared to administer a program of this kind and on what conditions. I do not see any deliberations on this matter in IDA taking place, however, until the end of 1968 or 1969 but, in the meantime, there would be need for staff work for such deliberations. The study on Commodities requested at Rio has aroused worldwide expectations. It is literally ^{astonishing} ~~amazing~~ for one who has been associated with the Fund and the Bank from the beginning to see how widespread is the feeling that unless these organizations do something about the problem of commodity fluctuations, little will be done by any other institution or collection of countries in the foreseeable future. We are proceeding with these studies and should be able to have a Board discussion of our outline in February or March. ~~It~~ It is too early to say whether we will have something done for the next September Conference. In any case, however, the substantive work will probably take most of 1968 and if there are Board discussions, they would probably be held in the winter of 1968/69.

Relations with Soviet Countries

There are many reasons for increasing our knowledge of the Soviet countries, including the ~~great~~ possibility that some will become members of the World Bank Group and having a much better basis for their development finance activities. We have taken steps to begin this work and may expect it to become of greatly increased importance in the coming years.

New Areas

As already indicated much of what was discussed above really reviews new things in the sense that we have not done them before. On the other hand they do represent a continuation of already started activities and in that sense might be regarded as either doing more of the same or at least being an outgrowth of present activities. There are, however, two other matters which are really different in kind that may well be preoccupying the Bank Group in the next few years and for which preparation might well be needed much earlier.

Vietnam and Post-War Activities

It will be recalled that a number of years ago the Vietnam authorities approached the Bank as to whether we would be prepared to play a role in the reconstruction of Vietnam. At that time we said that we were prepared to play a role in the reconstruction process when hostilities came to an end. In the meantime, however, we have not taken steps to acquire intimate knowledge of the Vietnam economy. The Fund has had occasion to do this because it has continued to advise the Vietnamese authorities on foreign exchange and monetary improvements. At the time of the end of the Vietnam hostilities the World Bank may well be called upon to play a role in the reconstruction process. The Asian Development Bank exists, but for a number of years the staff is likely to be quite inadequate for such a major assignment and, of course, both institutions might well be involved simultaneously as well as the Monetary Fund in its own areas of specialization.

It will be recalled that about two years ago we put down some thoughts on the desirability of the United States Government doing some post-war planning in the field of development even beyond Vietnam during the period of the Vietnam hostilities. The essential point was that World War II experience indicated that the war time experience had made governments more conscious of the need to do something about reconstruction and development and that commitments might be entered for ~~xxxxxxx~~ into periods of post-war activities that might not be made if left to the end of hostilities. These memoranda were circulated to various U.S. departments

and some formal discussions took place with senior officials. The end of the hostilities in Vietnam could release large sums of monies for the performance of development and might provide a much more favorable political and public environment in using such funds for production investment in the less developed countries all over the world as well as in Vietnam. I believe, that we should consider setting up a small group within the Bank to do this kind of forward thinking. Fortunately, much of it is done in our economic reports, where country by country we try to find out what effective use could be made of development finance if it were available in sufficient amounts to do the job ~~xxxxxxx~~ that the country could do well without external financial restraints. Given this kind of continuous work the eventual work would really have to be on countries with which we are not familiar enough. After we have done the Middle Eastern countries as now planned, it will only be Vietnam itself. However, if at least one person had the assignment of thinking about this problem we might be much better prepared to come forth with concrete suggestions on how to take advantage of dramatically changed environment to further the development process in an effective and orderly manner. ~~xxxxxxx~~ If nothing else we might avoid falling into the error of assuming that the things ~~we~~ that are worthwhile doing are simply inconceivable under present circumstances because of inavailability of finance at this time. We should have in effect a shift of worthwhile proposals of both a general character and specific investments that might come forward if we were to find ourselves in a new period of much greater capital availability.

Commodities

Partly

~~xxxxx~~ as a result of the discussions on supplementary finance and partly as a consequence of the utter frustration so far in being able to reach agreement on international commodities, e.g. cocoa, there is a growing feeling in authoritative government circles that in some way or another the World Bank Group ought to be

doing something about the commodity problem in a manner that goes way beyond anything we have considered thus far. Supplementary finance is an extension of the financial activities of the World Bank Group in the same way that ~~the~~ Compensatory finance was just a relatively small modification of traditional Fund financial activities. What is being considered these days is that even such questions as the nature of production quotas and export quotas should be considered within the framework of the World Bank Group. The reason is essentially that the problem is recognized as having no other sound solution except by diversification or development. To achieve development it is necessary to have an effective institution giving advice on investment decisions and insisting on hopefully achieving better economic performance. Moreover, to do this there is a need for some efficient organization where countries could meet and decide things together under the leadership of an international staff, etc. ~~Essentially~~ Surprisingly enough, these views are current official in governments, including at the highest/levels in the United States Government. The argument that this means an area of expertise which the World Bank simply has not got and has never really contemplated, e.g. expertise on the commercial and financial aspects of commodity markets. The answer is that if this job is not done by the World Bank it simply will not be done and the world is demanding that an effort be made to do it. This is not a prediction that we will be doing this kind and of work, ~~but~~ that we will be giving serious consideration to suggestions from the Coffee Diversification Fund made for example for this kind of thinking.

January 18, 1968

Mr. Stevenson

800

Reference last paragraph -

---- of course, but would like to be informed
more of content of para.1, before answering.

Irving S. Friedman

(memo from Kamarck on Economic Briefs)

*Spoke on telephone - still not very
clear what is real problem. ✓*

January 17, 1968

Dear Professor Aliber:

I thank you for your letter of December 28 inviting me to participate in the Conference on Decision-Making in International Institutions to be held on your campus on June 8 and 9, 1968. I shall be very pleased to participate and to prepare a paper on decision-making in the World Bank Group of institutions along the lines suggested in the enclosure to your letter. I note that the draft of my paper should reach you by May 1, 1968. I will do my best to meet this deadline.

I look forward to receiving a more specific outline of your requirements in the near future. Could I also be informed of the names of other participants?

Sincerely yours,

(signed) Irving S. Friedman

Irving S. Friedman
The Economic Adviser to the President

Professor Robert Z. Aliber
University of Chicago
Graduate School of Business
Chicago, Illinois 60637

January 16, 1968

Mr. Thomas D. Finney, Jr.
Lawyer
815 Connecticut Avenue, N.W.
Washington, D.C.

As promised.

Federal Reserve Bank of New York
Circular No.6090 January 4/68 -
U.S. Department of Commerce Foreign
Direct Investment Program

Agenda for meetings and functions to be held with
the Berne Union Delegation
Tuesday, January 16, 1968

Delegates: Sir Anthony E. Percival, President of the Berne Union
Mr. R.H. Rowntree, Executive Vice President, Export Import Bank
M. Jacques Levy, President, Compagnie Française d'Assurance pour
le Commerce Extérieur
Mr. Hugh Aitken, ^{Vice} President, Export Credits Insurance Corporation,
Ottawa

* * * * *

10.30 a.m. Meeting on exchange of information in the office of Mr. Benjamin King, Chairman of the External Debt Review Committee.

1.00 p.m. Lunch hosted by Mr. Irving S. Friedman, The Economic Adviser to the President.

3.00 p.m. Informal meeting with Mr. C. David Finch, Deputy Director of the Exchange and Trade Relations Department of the International Monetary Fund.

4.30 p.m. Meeting on matters of lending policy in the office of Mr. Irving S. Friedman, The Economic Adviser to the President.

6.00-8.00 p.m. Cocktails in the Bank Executive Dining Room hosted by Mr. Irving S. Friedman, The Economic Adviser to the President.

Mr. George D. Woods

January 12, 1968

Irving S. Friedman

I thought you would like to know that I will be in New York over the weekend and until Monday night. I will be seeing friends on Saturday and Sunday, including having dinner with the Overby's on Sunday night. On Monday I will be visiting with Al Hayes at the Fed. I had hoped also to see Charley Coombs, but they have finally coerced him into taking a vacation and he is in Florida. If time permits I will try to visit others in the morning.

In the afternoon and evening I am participating in a seminar meeting of the so-called "Bishops Committee for World Justice and Peace," a group which was set up to implement the Papal Encyclical for Peace and Progress. This was something I agreed to do months ago and, at my initiative, Harold Graves has also been invited. The meeting will cover two days: the first day being devoted to the problem of development and what the Church might do to get support for development; the second day will be an executive session of the churchmen alone to discuss internal problems of implementation. There will be 16 or 17 people in all, including Tom Farmer who is General Counsel for AID; Monsignor Gremillion, Director in Rome of the Pontifical Commission for Justice and Peace - the one who got me personally involved with these activities some time ago; and Cardinal Roy of Canada, President of the Pontifical Commission. A lunch has been arranged for the participants in the seminar on Monday, which will also be attended by U. Thant.

January 12, 1968

Mr. John C. Bullitt
AA/EA Room 6212
State Department
Washington, D.C.

The attached corres. is self-explanatory.
Perhaps we could get together and talk
about it some time.

(Also sent to Robert W. Barnett)

(Exchange of corres. between
Mr. Friedman and Mr. Watanabe on
Population Conference.)

January 12, 1968

Dear Ken:

Your Dad has asked me to mail some economics material to you. I hope you will find the following of use, which is being sent to you under separate cover:

"The Road to Huddersfield"
"In Defence of Development" - Reprinted from
The World Today
"International Problems of Economic Development" -
Address to The Canadian Political Science Association
Supplementary Financial Measures
Annual Report - World Bank and IDA 1966-67
" " " 1964-65
IFC 1966-67
World Bank Atlas of Per Capita Production & Population
World Bank Atlas of Per Capita Product Population Main Urban
Areas
Comparative Data Division Tables
World Tables
Reprint from the Encyclopaedia Britannica 1966-1967
Booklet from The Victor Fund for the International Planned
Parenthood Federation

Sincerely yours,

(Ruby G. Watson)

Mr. Kenneth S. Friedman
Box 348
Earlham College
Richmond, Indiana 47374

P.S. We will be sending you more papers from time to time.

1. The Economic Committee met on January 2, 1968 to discuss a paper by Mr. Peter Wright entitled "Some Economic Aspects of Local Cost Financing" dated December 7, 1967 (EC/O/67-150) [attached]

2. The Chairman noted that Mr. Wright's paper did not recommend any departure from present policies on local expenditure financing, but rather examined the economic implications of any "tightening up" of present policies which might be adopted by the Bank/IDA. The Chairman recalled that since the Financial Policy Committee Discussions in 1964 there had been no distinction between Bank and IDA policies in the area of local expenditure financing. However, there were indications that some staff members believed that there could be a distinction between IDA and the World Bank in this respect and this would presumably be one of the subjects in the forthcoming discussions on IDA criteria. Moreover, views had been expressed at various times that given the relative scarcity of IDA funds reductions in the use of IDA resources for this purpose would be sensible and a number of Executive Directors had also seemingly reflected this viewpoint in various Board discussions. The recent Draft Loan Committee paper on this subject ("Foreign Exchange Loans for Local Expenditure" dated November 3, 1967) proposed that the Bank (but not IDA) should in future be rather more "restrictive".

3. There was no attempt to reach a decision as to whether future policy on local cost financing ought to differ as between Bank loans and IDA credits. It was agreed, however, that in any case there was strong economic argument for continuing the present policy of permitting local cost financing in those cases where it was felt to serve the objectives of development, after careful scrutiny by the Bank staff. From an economic viewpoint, the existing policy as set forth (cite operational memorandum) was to be continued. However, further thought should be given to the finding of exceptional circumstances and "special cases" because of the great changes in world economy which were taking place, and was giving a different content to these words.

4. The Chairman informed the Committee that he hoped to be able to submit for discussion a draft paper on IDA lending criteria in the future.

January 11, 1968

My dear Takeshi:

Many thanks for your letter of December 15. I fully appreciate your arguments against a meeting on population matters during the annual session of ADB. In retrospect, it is probably true to say that we were too optimistic in thinking that the meeting could be informally organized with minimal administrative preparation and at relatively short notice. It was, however, felt that no stone should remain unturned in the effort to address so influential and distinguished a gathering on a matter of vital economic importance for the region.

I can see much merit in your suggestion for a meeting with an expanded subject matter under the sponsorship of ECAFE or the Society for International Development. It is, however, possible that such a meeting may stimulate less interest among Finance Ministers -- and consequently have a less direct impact on national economic policies -- than a narrowly defined, policy-reorientated one held under our joint auspices. Since, in any case, a discussion in April 1968 would seem not feasible, we have time to give more thought to the question. I shall be writing you again after informal consultation with other interested parties.

With warm regards and best wishes for the New Year.

Sincerely yours,

Irving S. Friedman

Mr. Takeshi Watanabe
Asian Development Bank
Commercial Center
P.O. Box 126
Makati, Rizal, Philippines

Mr. Harold N. Graves

January 11, 1968

Irving S. Friedman

Mr. Woods' UNCTAD Speech

The attached is for possible inclusion in Mr. Woods' speech at UNCTAD, New Delhi. I would be happy if you would indicate that the paragraph in question was drafted by myself.

If you would rather not handle it this way, I would take it up directly with Mr. Woods, although I do think it better that it be sent in the context of the speech itself.

I note that Supplementary Financial Measures is a separate item on the agenda of this Conference. You will recall that the Bank Staff had prepared a Study on the subject and made certain proposals in response to a request from the First Conference. These proposals have been considered carefully by a group of governmental experts, and members of our staff have participated in these deliberations as advisers. With respect to the financial implications of any scheme we, in the Bank, have always taken the view that the replenishment of IDA, now being considered, has the most urgent priority and needs to be accomplished long before any Supplementary Finance Scheme could come into effect. We have also taken the view that the question of what international agency should administer any such scheme was to be decided by the countries concerned; and we have made no recommendation on this. Then there is the problem of commodity stabilization. The Board of Governors of the Bank and of the Fund adopted a resolution on this at their Annual Meetings in Rio de Janeiro. Accordingly, studies have been taken in hand in the Bank and in the Fund. It is not yet possible to see what the final conclusions of these studies would be. We are considering whether IDA resources might be used for such purpose. If the answer is positive and our members wish us to pursue such policies, then, of course, additional resources will have to be provided for the purpose. In any case, it is clear that Supplementary Financial Measures and efforts towards Commodity Stabilization, if formulated and implemented carefully, will each have their distinct and complementary roles in dealing with the export problems of developing countries, and thus facilitating their economic development on a surer basis.

January 11, 1968

Dear Mr. Schlanger:

I have pleasure in returning a copy of your letter giving permission for the reprinting of BRITISH RELATIONS WITH CHINA, 1931-1939.

Thank you for sending me a copy of your catalog which I found very interesting.

Sincerely,

Irving S. Friedman
The Economic Adviser to the President

Mr. Henry G. Schlanger
Octagon Books, Inc.
175 Fifth Avenue
New York, N. Y.

January 11, 1968

My dear Silveira Gomes:

I am very pleased to learn that the Central Bank of Brazil is to become an Institutional Member of the Society for International Development. Please accept my appreciation and also convey my thanks to the President.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. Eduardo da Silveira Gomes Jr.
Chief
Central Bank of Brazil
Rio de Janeiro, Brazil

January 10, 1968

Mr. Raj

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APR 18 1971
WFO 6 10 1971

Perhaps we could have a chat about this after you have had a chance to read this and think about it. (I assume you know this an quite well.)

Irving S. Friedman

January 10, 1968

Mr. Sarma

1036

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WBG ARCHIVES

Do you know Dr. Sen? What do you
think?

(Please keep this confidential.)

Irving S. Friedman

January 10, 1968

Dear Andy,

I have now been able to read a copy of the letter which you sent to the Council of Foreign Relations. I can only say that I don't recognize the fellow whom you are recommending! Seriously, I do want to thank you very much for this fine letter. I have read and reread it with great pride and I am looking forward to showing it to the family.

Thanks again.

Sincerely yours,

Irving S. Friedman

Mr. Andrew N. Overby
Vice Chairman of the Board
The First Boston Corporation
20 Exchange Place
New York, N. Y.

Mr. C.F. Owen

January 10, 1968

Irving S. Friedman

East Africa: Technical Assistance Recommendations

I think you should distribute this to category 3(c) people with an introductory note along the lines of your paragraphs 1 and 2.

Jan. 10, 1968

Messrs. Avramovic

Kamarck

Coreux

Sundrum

I believe you will find the
attached of interest.

Irving S. Friedman

10 A.

DISCOURS PRONONCÉ PAR M. Roland NUNGESSER à l'O.C.D.E.

le 1er décembre 1967

Je suis heureux d'avoir à prendre, pour la première fois, la parole, au nom de la France, au cours de cette session du Conseil de l'O.C.D.E. consacrée aux problèmes relatifs aux relations avec les pays en voie de développement. C'est un problème permanent, mais l'échéance de la Conférence de Delhi oblige à l'envisager maintenant dans une perspective plus immédiate et plus concrète. La délégation française ne peut que s'en féliciter, car aucun pays plus que le nôtre n'attache d'importance à cette question : c'est d'elle dont dépend le développement d'une véritable coopération internationale, l'établissement de relations plus équitables et plus fructueuses entre les diverses nations du monde.

Il faut envisager le problème dans son ensemble : l'aide au développement, entendue dans son sens véritable, représente la convergence d'une série d'efforts. Elle comporte des mesures commerciales autant que l'apport d'une aide au sens habituel du terme. L'intervention faite au nom de la délégation française ne se limitera donc pas à ce dernier aspect, mais portera sur le problème général des relations avec les pays en voie de développement.

Ce problème doit être considéré avec réalisme, dans un souci d'efficacité, et sans se dissimuler les difficultés. Dans cet esprit, et avant de rappeler les conceptions de la France sur les divers moyens de favoriser le développement du Tiers-Monde, il est bon de reprendre deux considérations essentielles que M. DEBRE avait évoquées à la même réunion de l'O.C.D.E., l'année dernière.

I - Les bases d'une politique du développement : la nature et l'ampleur de l'effort nécessaire.

1. La nature de l'effort. Cet effort doit s'adapter à la diversité des situations et des intérêts des pays en voie de développement. On a peut-être trop tendance - dans les pays en voie de développement et dans les pays industrialisés - à considérer le Tiers-Monde comme un ensemble homogène, fait de situations semblables. C'est une vue apparemment commode, mais simpliste et factice, qui risque de faire oublier la complexité réelle des problèmes.

Il y a certes des points communs, et un problème général des pays en voie de développement, que nul ne peut nier. Mais des pays qui s'étendent sur trois continents, où se trouve une considérable variété de climats, de productions, de dimensions territoriales, de stades de l'évolution économique, sont bien plus différents entre eux que ne le sont les pays industrialisés. L'inégalité de développement n'est pas seulement un phénomène entre le Tiers-Monde et les pays avancés, c'est également un phénomène au sein du Tiers-Monde lui-même.

.../...

Il n'est donc pas de système général et uniforme qui puisse apporter des solutions toutes faites et valables pour tous. La coopération internationale n'a de valeur et de portée que si elle tient compte de la diversité des nations, de leurs possibilités et de leurs difficultés respectives. Elle ne peut aboutir que si elle tend à remédier aux inégalités de développement à tous les stades, en ajustant les moyens en fonction des besoins de chacun.

2. L'ampleur de l'effort. Il faut être conscient de l'étendue des sacrifices qu'implique pour tous le développement des nations en retard, si l'on veut dépasser chez les uns la simple générosité verbale, chez les autres l'espoir de remèdes faciles apportés de l'extérieur.

a) effort des pays industrialisés. L'aide, entendue au sens large, qu'il est nécessaire de lui donner, suppose un prélèvement sur les ressources de ces pays, par diverses voies : contributions financières, y compris parfois la charge des dons alimentaires, prix élevés à payer pour les produits de base, part faite sur nos marchés à la concurrence des jeunes industries d'outre-mer.

Ce prélèvement ne peut être négligeable, ni par conséquent se faire de façon insensible, si l'on veut que l'aide ait sa pleine signification.

Or, dans le même temps d'une part, se manifeste, sur le plan social, dans les sociétés industrielles une exigence toujours plus grande pour l'amélioration des niveaux de vie, et d'autre part, sur le plan économique, une compétition de plus en plus sévère s'engage dans le monde. Dans le même temps également, apparaissent des difficultés de conjoncture, qui ralentissent la croissance en posant des problèmes d'emploi.

Dans les nations démocratiques, il n'est pas toujours aisé de faire ainsi accepter par les opinions publiques les sacrifices qu'impliquent des transferts de ressources aux pays plus défavorisés. Pour des raisons psychologiques et pour des raisons de concurrence, il n'est pas possible de concevoir ces transferts à l'échelle qui serait souhaitable, sans que les charges soient également réparties entre les pays industrialisés : tout le monde paraît l'admettre quand il s'agit de mesures commerciales, comme par exemple les préférences. Il serait bon de l'admettre également quand il s'agit des charges financières.

b) effort des pays en voie de développement eux-mêmes. Il est évident que ces sacrifices ne peuvent être consentis par l'opinion des pays avancés, que s'ils viennent compléter l'effort des pays bénéficiaires. Il est évident aussi que, pour l'essentiel, le développement de chaque pays, quel qu'il soit, ne peut venir que de lui-même. Les pays du Tiers-Monde doivent résister à la tentation d'attendre de l'extérieur, de la Communauté internationale, la solution de leurs difficultés : les concours extérieurs ne peuvent être qu'un appoint, assurément nécessaire, mais qui a peu d'effet s'il ne rencontre pas un milieu propice, s'il ne sert pas une politique cohérente et continue de développement interne.

Cette politique suppose naturellement des transformations considérables et difficiles : non seulement transformation des économies et des sociétés, mais aussi évolution des esprits. Il faut, d'une part, surmonter les conceptions et les habitudes des sociétés traditionnelles, d'autre part, adapter les ambitions aux possibilités en se fixant des objectifs raisonnables, et notamment en veillant à ce que l'industrialisation ne compromette pas le développement nécessaire de l'agriculture.

L'effort rationnel de développement conduit enfin à l'établissement de solidarités régionales qui permet aux pays en voie de développement de rassembler leurs ressources dans de plus vastes ensembles, à l'image de ce que les pays industrialisés font eux-mêmes, et qui n'est pas moins nécessaire pour le Tiers-Monde.

II - L'action internationale : quelles solutions envisager ?

Compte tenu de la diversité de situations des pays en voie de développement, et compte tenu de leurs efforts propres, nous devons mettre en oeuvre un ensemble de moyens qu'il convient de conjurer rationnellement dans ce qu'on appelle volontiers une "stratégie du développement". Les conceptions françaises sont à cet égard bien connues, mais il faut les rappeler une fois encore. Les problèmes n'ont pas changé, et les solutions pour les résoudre restent les mêmes : l'aide sans doute dans son sens classique, mais aussi et bien davantage le mécanisme des échanges.

A - L'aide

D'une manière générale, l'aide forme un tout mais ses différentes composantes appellent des réflexions distinctes selon qu'il s'agit de l'aide économique proprement dite, qui doit constituer un effort continu de soutien au développement du Tiers-Monde, et l'aide alimentaire, qui a plutôt le caractère d'un secours temporaire.

1. L'effort à entreprendre et l'égalisation des charges. Le rapport du Secrétaire Général expose clairement la situation : le volume global de l'aide apportée par les pays de l'O.C.D.E. est en diminution. Cette évolution est regrettable. Pour la renverser, nous avons préconisé l'égalisation par le haut des charges entre pays donateurs. L'objectif de 1 % du revenu national, que nous avons proposé à la Conférence de Genève, peut n'être pas jugé suffisant, mais ce serait déjà un pas appréciable dans la bonne voie.

L'égalisation des charges peut être d'autre part le moyen d'améliorer les conditions de l'aide, dans la mesure où cette amélioration se traduit par de nouveaux sacrifices de la part des pays donateurs. Il est évident cependant que les problèmes sont différents à cet égard selon les pays bénéficiaires, et qu'on ne peut envisager de solutions uniformes.

2. L'aide alimentaire a été évoquée cette année dans le rapport particulier du Secrétaire Général consacré aux problèmes alimentaires des pays en voie de développement, rapport d'un grand intérêt qui trace des perspectives ambitieuses jusqu'au delà de l'an 2.000.

Il est vrai que la lutte contre la faim est un devoir de solidarité internationale, et le Gouvernement français n'a jamais manqué de le souligner. Le problème, heureusement, n'est pas cependant un problème général des pays du Tiers-Monde. Il ne se pose réellement que pour certains d'entre eux et dans des conditions qui varient selon les aléas climatiques: nous pouvons constater cette année, avec satisfaction, que la situation s'est, à cet égard, nettement améliorée.

L'aide alimentaire est donc avant tout un moyen de faire face à des situations temporaires : temporaires à court terme selon les variations de récoltes, temporaires à moyen terme en fonction de l'évolution des productions alimentaires et de la croissance démographique. C'est un palliatif bien plus qu'un instrument permanent d'aide au développement.

La solution n'est pas en effet d'en faire un instrument permanent. Ce serait encourager la création artificielle d'excédents, déjà considérables dans les pays développés : politique d'apparente facilité, qui rencontre bientôt ses limites, et qui crée plus de difficultés qu'elle n'en résout. Il ne serait pas bon non plus d'accoutumer les pays bénéficiaires à des transferts qui les mettraient en état de constante dépendance, et qui risqueraient de décourager l'expansion de leurs propres productions agricoles.

La solution à long terme consiste à favoriser le développement de ces productions, élément fondamental d'un progrès équilibré des économies du Tiers-Monde, et seul remède véritable aux difficultés alimentaires. Nous ne pouvons qu'être d'accord avec le Secrétaire Général sur ce point.

Il convient de tenir compte de cet objectif dans les politiques nationales d'aide, ce que nous faisons déjà dans une importante mesure, pour notre part, et de concerter autant que possible les efforts en ce sens. L'accent doit être mis en particulier sur la formation des hommes et la diffusion des techniques agricoles, sans lesquelles toute autre action, fût-elle ambitieuse, risque de demeurer sans résultat.

B - Le mécanisme des échanges

L'aide ne peut être le seul moyen, ni le principal, pour faciliter le processus de développement. Elle impose des charges qui sont directement sensibles sur le budget et donc sur les contribuables dans les pays donateurs. Elle risque d'être affectée par la conjoncture politique et économique de ces pays.

Sans doute, faudra-t-il poursuivre et améliorer cette aide. Mais c'est davantage par les échanges, c'est-à-dire par l'accroissement de leurs recettes d'exportation, que l'on peut et que l'on doit apporter aux pays moins développés les ressources extérieures dont ils ont besoin. Le commerce, à condition que ses mécanismes soient aménagés de manière équitable, doit être l'instrument normal du développement : il crée des relations naturelles et durables, fondées sur des intérêts réciproques, qui, d'elles-mêmes facilitent et accompagnent le processus de croissance économique.

Mais ces échanges doivent être aménagés. L'inégalité de développement ne permet pas une concurrence égale, et le pur libéralisme joue au détriment des plus faibles ; il est devenu banal de constater la diminution de la part du Tiers-Monde dans les échanges internationaux.

Comment compenser, autant que possible, ces inégalités ? La France a proposé deux voies, qui n'ont d'ailleurs pas la même importance : les préférences et la stabilisation des marchés.

1 - Les préférences. Le sujet a déjà été traité dans l'intervention du représentant de la Communauté Economique Européenne et il ne sera mentionné ici que pour mémoire. Qu'il suffise de rappeler que nous avons été parmi les premiers à recommander le principe des préférences et de nous féliciter que ce principe soit aujourd'hui communément admis. J'ajouterai, cependant, que le seul objectif qui, de l'avis du Gouvernement français, doit être retenu en l'occurrence, est celui de l'aide à apporter aux pays sous-développés dans leur ensemble pour encourager leur développement.

A cet égard, certaines délégations demandent que les pays en voie de développement qui bénéficient actuellement d'un accès préférentiel sur le marché de certains pays développés, acceptent d'aligner leurs avantages sur ceux, vraisemblablement inférieurs, qui résulteraient des préférences nouvelles ; autrement dit, pour accorder à l'ensemble des pays en voie de développement un avantage, dont on déclare qu'il est de portée limitée, on demande à certains d'entre eux de sacrifier des avantages antérieurement acquis. Faut-il remarquer, au passage, que cela aboutit à ouvrir de nouvelles possibilités au profit de certains pays industrialisés.

Cette manière d'aborder le problème ne nous paraît pas répondre au souci bien compris de contribuer au développement économique des pays pauvres.

Aussi, le Gouvernement français ne voit ni nécessité, ni justification à l'établissement d'un lien entre l'aide indispensable à accorder aux pays en voie de développement et la suppression d'arrangements internationaux qui ont fait la preuve de leur utilité.

2 - La stabilisation des marchés. C'est, à notre avis, l'élément fondamental de la stratégie du développement. D'abord, parce que les produits de base représentent plus des 4/5ème des exportations des pays du Tiers-Monde. Ensuite, parce que ce sont des

produits dont les échanges sont les plus vulnérables aux aléas de la conjoncture, et aux manœuvres de la spéculation.

Le bon sens autant que l'équité commandent de remédier à l'anarchie qui sévit sur les marchés internationaux de produits primaires, et qui est, pour une grande part, la cause du recul des pays en voie de développement dans le commerce mondial. Si le principe est simple, les modalités peuvent varier, et on ne peut envisager, là non plus, de solutions uniformes : il s'agit de conclure, produit par produit, et selon les caractéristiques de chacun d'eux, des accords qui permettent de stabiliser les prix afin d'assurer, de façon continue, des ressources plus élevées aux pays producteurs.

Il peut en résulter, à certains égards, une charge pour les pays industrialisés importateurs. Mais cette charge - l'expérience le montre suffisamment, ne fût-ce que dans le cas des politiques agricoles nationales - est plus aisée à supporter que le sacrifice budgétaire et fiscal. Une fois le mécanisme créé, on s'y accoutume sans mal, et on est peu tenté de le remettre en cause.

Nous avons un exemple qui est probant : l'accord international sur le café qui fonctionne depuis cinq ans. Il a procuré en moyenne quelque 1 milliard de francs de recettes supplémentaires aux pays producteurs, sans que les consommateurs en aient sérieusement de difficultés. Mais, avec l'accord sur l'étain, plus ancien et de portée plus limitée, cet accord est encore le seul dont bénéficient les producteurs des pays moins développés.

Quelles raisons empêchent d'aller plus loin ? Il existe certes des difficultés techniques, qu'il serait vain de nier ou de minimiser. Mais l'expérience montre suffisamment qu'elles peuvent être surmontées quand se manifeste une volonté politique. Aussi, est-il regrettable que, contrairement à ce qui s'est passé pour l'accord sur le café, la négociation sur le cacao, qui ne soulevait pas plus de difficultés et aurait dû être plus aisée à conclure en raison du petit nombre de producteurs, ne commence que maintenant. La volonté politique avait fait défaut, et c'est là le fond du problème.

Peu à peu, cette idée de stabilisation des marchés, qui rencontrait il y a quelques années beaucoup de scepticisme, finit par s'imposer. Depuis la Conférence de Genève, en 1964, les esprits ont évolué, en particulier dans les pays en voie de développement, instruits toujours davantage par l'expérience décourageante des marchés internationaux de produits primaires.

Des institutions telles que la B.I.R.D. et le F.M.I., longtemps réservés, perçoivent davantage qu'elles ne peuvent se désintéresser du problème : la résolution qui, à l'initiative de la France et des pays africains, a été adoptée à la réunion de Rio, apparaît dans ce sens comme un pas fort encourageant.

Du côté français, nous fondons sur la résolution de Rio des espoirs précis. C'est pourquoi, je voudrais profiter de notre réunion pour exposer les orientations que devraient, à mon avis, prendre les travaux des Institutions de Bretton-Woods. Je souhaite que ces réflexions contribuent à favoriser une convergence de vues dont les premiers signes sont déjà perceptibles.

On ne peut certes demander aux Institutions financières mondiales ni d'apporter des compensations financières à long terme qui donnent aux pays en voie de développement une garantie absolue contre les fluctuations de leurs recettes d'exportations, ni d'intervenir directement dans la conclusion d'accords de produits.

En revanche, il ne semble que la Banque Mondiale, l'Association Internationale de Développement et le Fonds Monétaire International peuvent, sans charge

supplémentaire excessive, apporter un concours extrêmement précieux au bon fonctionnement des accords existant ou éliminer certains des obstacles qui empêchent ou retardent la conclusion d'arrangements nouveaux.

Les deux difficultés principales, auxquelles s'est toujours heurtée la mise en place de mécanismes efficaces de régularisation des cours, sont en effet :

- d'une part, l'absence de moyens de trésorerie suffisants pour garantir le bon fonctionnement des accords dans le temps et surmonter les tensions exceptionnelles ;
- d'autre part, l'insuffisance de moyens de pression ou d'incitation permettant d'assurer le respect des disciplines de production et d'exportation, indispensables à tout mécanisme d'intervention.

En ce qui concerne le premier point, le Fonds monétaire et le Groupe de la Banque Internationale disposent de ressources de trésorerie qui pourraient fournir l'assise d'un fonds de garantie permettant à la fois de consentir, aux organismes chargés de la gestion des accords par produits, des avances de démarrage et d'accroître, en cas de besoin, les moyens d'intervention qui s'avèreraient nécessaires.

En ce qui concerne le second point, il est hors de doute que le respect des disciplines des accords peut entraîner pour certains pays participants des difficultés durables exigeant une réorientation partielle de leur économie. Il serait logique qu'une partie des ressources à long terme de l'A.I.D. puisse être systématiquement affectée à des actions de diversification qui apparaîtraient comme un légitime corollaire des limitations imposées par les accords de produits.

En outre, l'intérêt que porteraient les Institutions financières de Bretton-Woods à la bonne marche de ces mécanismes de régularisation donnerait à l'ensemble des actions ainsi entreprises la caution multilatérale nécessaire à leur cohérence économique.

Telles sont les réflexions que la délégation française croit devoir formuler à propos des problèmes du développement. Ces réflexions ne sont pas nouvelles. Mais les idées s'achèvent, par la force des choses, lorsqu'elles sont servies par la démonstration des faits et que les échéances obligent d'aborder sans détour les réalités.

Les travaux de l'O.C.D.E. ont fait beaucoup pour approfondir ces problèmes, pour faciliter la compréhension et le rapprochement des points de vue : la question des préférences en porte aujourd'hui témoignage. Nous attendons que d'ici la prochaine Conférence, pendant son déroulement, et après elle, ces efforts soient poursuivis et qu'ils portent leurs fruits. La délégation française entend bien pour sa part, y contribuer.

Mr. R.A. Clarke

January 9, 1968

Irving S. Friedman

Mr. Akinori Marumo

Thank you very much for your help on Mr. Marumo.

By the way do we have some young professional who has had some experience or training in scientific management or operations research?

Replied 20/1/68

January 9, 1968

Mr. Woods

1220

You may be interested in this brief
note from Mr. Isaiah Frank on the meeting
he attended at Ditchley.

Irving S. Friedman

(Ditchley meeting on Trade and Aid Policy
toward Developing Countries, Dec. 15-18, 1967)

NEXT STEP ON IDA REPLENISHMENT

1. For various reasons the time has come to settle the basic question of the magnitude of IDA replenishment and the related question of acceptance by the United States of a system of deferment designed to satisfy its need for adequate balance of payments safeguards. The present situation seems briefly to be that the United States continues to support a replenishment at an average of \$800 million for three years in the form of \$600/\$800/\$1,000 million. This has the support of Canada and the Scandinavian countries other than Norway. The Netherlands, U.K. and Norway are at about \$500 million per annum, with at least the first two on record willing to consider more. However, France, Germany, Belgium, Italy, are at \$375-400 million level, with the French perhaps unwilling to put up more than its 8.3% of \$375 million. The Australians, Japanese and Austrians at this time may, at most, be put into the \$375-400 million group. There are indications that Denmark and Canada may be willing to increase their shares to help achieve a higher level of replenishment.

2. The President of IDA has essentially two choices:

(a) He can report this situation to the Part II donor countries, with a request that efforts should be made to reach a meeting of minds as soon as possible, with the President presumably stressing the urgency of the need for agreement. He might go so far as to offer to chair a meeting of Ministers concerned, if such a meeting is necessary.

(b) On the other hand, he could come up with a counter-proposal, which would crystalize the views expressed so far in some form of "consensus view." If this view were acceptable to at least the principal donor governments, it might be unnecessary to have a meeting of Ministers. In crystalizing the views expressed so far into some form of consensus, the President of IDA would presumably take into consideration the expressed views of all Part I countries. If he were to be guided by the relative importance of countries as contributors, the weighted average would

come out to about \$600 million per annum for three years. If all the contributors are regarded as the same, the average comes out to \$550 million per annum. As for escalation - again weighting the countries by contributions - a majority favors escalation; going by numbers of countries the split is nearly 50/50.

3. It is suggested that the President of IDA might canvas these alternatives with the U.S. Governors along the following lines:

(a) He could indicate that he, as the President of IDA, has done all that he could to make clear to the donor countries both the need for the replenishment at the higher figures, the ability of IDA to administer such higher magnitudes effectively, and ways and means of solving certain practical budgetary and balance of payments problems facing some donor countries. He had found not a disagreement with the needs of the LDC's or the ability of IDA, but rather a basic difference in policy attitude toward the use of multilateral agencies. The countries advocating the lower figures are willing to agree to a larger role for IDA, but of considerably smaller magnitude than those countries which have accepted as a matter of basic policy a much wider role for multilateral institutions in development finance, particularly the World Bank Group.

(b) If the countries which advocated the larger figures, particularly the U.S., Canada and Sweden, felt that it would be desirable to have further discussions at the ministerial level, then he, as President of IDA, would be prepared to be of help, but would stress the need for urgency. If, on the other hand, the U.S. Governor felt that such further discussions among the Part I donors might not be useful, he, as President of IDA, was prepared to suggest a compromise proposal to all the Part I donors which would try to reflect the views of all the countries participating in the replenishment.

(c) If a compromise counter-suggestion seemed desirable, any figure between \$500 and \$600 million per annum could be regarded as a compromise of the views

expressed by governments so far. Based on comparative contributions, \$600 million was justifiable. On the basis of the number of countries involved, a figure like \$550 million per annum could be suggested. On the basis that there was a middle group that has been advocating \$500 million -- and more particularly the Netherlands position, advocating \$500 million as a minimum, but as the most that could be achieved at this time -- the \$500 million figure might be argued as a compromise suggestion made by the Netherlands. The President of IDA could discuss with the U.S. Governor which particular figure he thought was most reasonable to suggest. If the President of IDA would prefer, he might instead suggest at the outset a figure of \$550 million per annum although aware that there was a good chance that the final figure would be lower but hopefully close to this \$550 million.

(d) The President could stress that all of the above figures on magnitudes assume that the United States will have some form of balance of payments safeguards but that there seemed to be no chance of going beyond a deferment scheme which would guarantee to the United States no balance of payments impact from IDA operations for three years. He could express the hope that the U.S. would accept this.

(e) With respect to the question of escalation, he could indicate that it seemed more important to get agreement quickly on the magnitude and the general approach to the balance of payments safeguards question. Discussion of escalation might prolong the debate longer than it was worth. However, it would be quite possible to envisage that if the Part I donors, or at least the principal Part I donors, would agree on the magnitudes of replenishment for the three years and the general balance of payments approach, a subsequent meeting of deputies could work out the more detailed aspects, including consideration of possible escalation.

4. After discussions with the Governor for the United States and a final decision by the President of IDA on what his next step would be, the latter might wish to inform the Executive Directors of IDA of what he contemplated doing before taking the next step. This might well be particularly appropriate if the President decided to make a compromise proposal.

5. If the U.S. Governor suggests that the \$400 million figure be accepted at this time without further action by the President of IDA, the President could indicate that he had no choice except to go along but that he would like to check with other countries supporting the higher figures before giving a final reply. In any case, he wished to act in such way as was consistent with his conviction that an IDA replenishment of the magnitudes he had originally suggested and the U.S. and others had supported was still regarded by him as reflecting the true needs of the LDC's, the appropriate role of IDA and helpful to the donors in meeting future demands for assistance.

I.S.F.

January 5, 1958

Mr. Sarma

1036

Please note the suggested changes.

What should we do next with this memo?

Irving S. Friedman

(UNCTAD II)

January 5, 1968

Mr. Sacchetti

803

xx

Please return as Mr. Friedman has not yet
seen the attached.

Irving S. Friedman's office

(Letter from Santa Cruz on Suppliers'
Credits)

January 4, 1968

Mr. Budhoo

1035

Could you please do a particularly good
summary for me of the attached.

Irving S. Friedman

(The Need for International Reserves by
United States Treasury Department)

January 4, 1968

Mr. Kamarck

800

xx

Irving S. Friedman

(Gazi's letter on rubber)

January 4, 1968

Dear George:

Thanks for sending me a copy of a study on The Need for International Reserves. I am looking forward to reading it.

I missed you the other night at the Kamarcks New Year's party; I hope that all goes well with you and your mother. How about having lunch together?

Kind regards,

Sincerely yours,

Irving S. Friedman
~~The Economic Adviser to the President~~

Mr. George H. Willis
Deputy to the Assistant Secretary
Treasury Department
Washington, D.C. 20220

Mr. George D. Woods

January 4, 1968

Irving S. Friedman

Mr. Danielian's article in Reader's Digest

I attach a proposed letter from you to the Editor of the Reader's Digest. It incorporates suggestions received from Harold Graves and Bob Cavanaugh.

The Treasurer has been opposed to the line of argument used in the second and third paragraphs. He feels that combining the effects of IBRD and IDA would detract from the financial integrity of the former and would lead to negative reactions in the investment community. I recognize this difficulty, but I feel that this difficulty must be weighed against the difficulties of obtaining Congressional approval of IDA replenishment because of the preoccupation with the U.S. balance of payments problem.

In the light of the new U.S. program of balance of payments restrictions, it is possible that we will need to marshal ~~even~~ additional arguments. Among these is the overall surplus effect on the U.S. balance of payments yielded by the World Bank Group as a whole. The U.S. may not use this argument in Congressional presentations, but I believe it is defensible coming from us.

In his article on "A Plan to Stop the Gold Drain", (Reader's Digest, December, 1967) Mr. Danielian says that institutions like the International Development Association (IDA) "are knocking gaping holes" in the U.S. balance of payments deficit.

IDA is a member of the World Bank Group; the Group actually has a net favorable effect on the U.S. balance of payments. The reason for the favorable effect is that our loans not only finance exports; they also earn interest and eventually get repaid. (In twenty years of operation, no loan by the World Bank Group has ever been defaulted). After a number of years of lending, the combined positive effect of export financing, earnings of interest, repayments of principal and other items exceeds the initial negative effects of loans. The World Bank Group passed this point several years ago. It has had a net favorable effect on the U.S. balance of payments in every one of the last five years. In that period, the favorable effect has averaged more than \$250 million per year.

It is possible to consider members of the World Bank Group separately, as Mr. Danielian does. The larger and older member, the International Bank for Reconstruction and Development (IBRD) has had favorable effects averaging about \$300 million a year in the last five years. IDA, which began operating in 1960, has been producing net unfavorable effects. These, however, have averaged about \$30 million a year, much less than the positive effects of IBRD. (Incidentally, it is incorrect to say that IDA lends "sums of \$101 to \$354 million"; in actual fact the smallest credit has been \$350,000, the largest \$150 million). Thus the combined balance of payments effects of IBRD and IDA are favorable.

Mr. Danielian praises the positive effects of private American investment abroad. In so doing, he relies on the same sort of

The Editor
The Reader's Digest
Pleasantville
New York 10570

analysis as the one I have just given for the World Bank Group. I would be glad if he would recognize that his words of praise can be applied with equal justice to this Group.

IDA also serves the U.S. policy of mobilizing resources from other donor countries. Every dollar contributed to IDA by the U.S. is matched by one and a half dollars from other contributors. Several other donors are in fact contributing more than the U.S., in proportion to their national wealth and income.

Mr. Danielian suggests that IDA "must be brought under stricter discipline by the U.S. Government." In fact all IDA transactions must be approved by a board of Executive Directors, and the American Director is the most influential single member of this board, wielding more votes than any other national representative. The American Director is instructed by the U.S. National Council on International Monetary and Financial Problems, composed of the Secretaries of Treasury, State and Commerce, the Chairman of the Board of Governors of the Federal Reserve System and the President and Chairman of the Export-Import Bank. No IDA proposal has ever been passed over his opposition.

Respectfully yours,

George D. Woods

j.Hulley/jb
January 4, 1968

January 4, 1968

Mr. Ripman

1210

Do you see any objections to this letter going out?

some point I would like to discuss with you the question of Mr. Sarma's salary since I think it ought to be raised before he leaves us.

Irving S. Friedman

(Letter to Mr. Jha, Governor, Reserve Bank of India)

January 3, 1968

Dear Mr. Jha:

Mr. N. A. Sarma has been with us on a three-year deputation, and his term expires on April 28, 1968 according to present arrangements.

I would appreciate it if you would please agree to his continuing with us till the middle of 1969 so that he can rejoin the Reserve Bank of India early in July 1969.

I understand from Sarma that he discussed this with you when you were here prior to the Annual Meetings. He himself is agreeable to this.

Kind regards,

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. L.K. Jha
Governor
Reserve Bank of India
Bombay 1, India

January 4, 1968

Mr. Budhoo

1035

Please read through this and give me a brief memo on the background of this matter as evidenced from the file, with a draft reply for Mr. Watanabe.

Irving S. Friedman

DECLASSIFIED

AUG 16 2023

January 4, 1968

PERSONAL

WBG ARCHIVES

Dear Bill:

I am looking forward to our having dinner together on the night of January 16. There will be many things to talk about I am sure, including your letter to George.

Sincerely yours,

Irving S. Friedman

Mr. William Clark
D6 Albany
Piccadilly
London, W.1, England

January 4, 1968

Mr. Woods

1220

Attached hereto is a letter from William Clark to you. When in London Mr. Clark had asked me whether I would have turned up and sent to you a letter which he was going to write in Minorca. I said I would be glad to do this.

Irving S. Friedman

Mr. George Woods

January 4, 1968

Irving S. Friedman

Visit of Mr. Plumptre

You will recall that Mr. Plumptre visited us to discuss the possibility of establishing a Development Research Institute in Canada. You saw his memorandum of November 28 on the subject. I thought you might find it interesting to glance at a minute of the meeting we had on this matter, prepared by a young Canadian official who accompanied Mr. Plumptre.

I had also had the opportunity the night before the meeting to have a long private chat with Mr. Plumptre on his proposal and related matters.

Mr. J. Burke Knapp

January 3, 1968

Irving S. Friedman

Modifications of U.K. Proposal on IDA Replenishment

You will recall that the other day we agreed to ask Hulley to see what the figures would look like if the U.K. proposal on deferment were modified so that deferred obligations were drawn on pro rata with other unused contributions, or the deferred obligations as they fell due were put at end of queue.

Hulley has done the attached tables and they indicate that it would make a significant difference in the year 1971-72 and lesser differences in later years, depending, of course, on the level of replenishment.

I have suggested to Hulley that we not circulate this table to others at this time since it may only divert attention and raise questions.

January 3, 1968

Dear Mr. Rathle:

I acknowledge receipt of your letter of December 21, 1967. I am delighted to note your interest as a researcher in the Bank and its problems.

With regard to your enquiry about the choice of an appropriate subject for your report, I feel that most aspects of development economics - and the field is vast - have relevance for our work; whatever you care to write will almost certainly find its echo here. However, in order to further acquaint you with our outlook and operations I am sending, under separate cover, a copy of the latest Annual Report of the Bank and IDA, together with a miscellanea of information pamphlets and a selection of recent speeches and policy pronouncements by our senior officers.

Sincerely yours,

(signed) Irving S. Friedman

Irving S. Friedman
The Economic Adviser to the President

Mr. Habib G. Rathle
Chase D 35
Harvard Business School
Boston, Massachusetts 02163

The Ministers of African countries assembled together in
at.....:

Recalling resolutions adopted during the course of 1967 by ECOSOC; the Trade and Development Board of UNCTAD; the ministerial meeting of the group of developing countries; the Second Committee of the U.N. General Assembly concerning the replenishment of the resources of the International Development Association;

Aware of the need of the developing countries, in general, and the African countries, in particular, for more capital in-flow on concessional terms;

Conscious of the vital role of IDA as a multilateral institution for providing finance to developing countries on concessional terms, and also of the feasibility of developing countries absorbing effectively such funds on a much larger scale than hitherto;

Taking account of the rising share of African countries in recent years in IDA credits and the anticipation expressed by the President of IDA that the rising trend will continue in the future;

Believe that IDA replenishment on a substantial scale would benefit African countries especially;

Fully Support the efforts of the President of the World Bank Group for a substantial replenishment of IDA resources for a three-year period, namely 1967/68, 1968/69 and 1969/70.

Express grave concern at the considerable delay in concluding the discussions among donor countries;

Request governments, members of the IDA, to treat the question of IDA replenishment as a matter of urgency, and

Urge donor countries to agree to IDA replenishment at a level at least twice the previous one for the current year, 1967/68, progressively increasing each year to substantially higher levels.

Finally, the African Ministers feel that the special difficulties of some donor countries arising from their balance of payments situation should not be allowed to affect the scale of IDA replenishment. However, they do not object to any mutual arrangements for balance of payments safeguards that the donor countries may evolve among themselves as long as such arrangements do not impair the effectiveness of IDA as a multilateral institution.

As requested by Kochan

January 2, 1967

Mr. Dragoslav Avramovic

January 2, 1967

Irving S. Friedman

Stabilization of Prices of Primary Products - Governors' Resolution No.239

With respect to the question of Board discussion of the Study on Stabilization of Prices of Primary Products, Mr. Woods has sent the suggested memorandum to Dr. Donner. Would you please undertake to make certain that we do discuss this matter with the Executive Directors before conclusions have been formulated.

cc: Mr. Kamarck

January 2, 1967

Mr. Hulley

1021

You may wish to incorporate some of these
suggestions in a redraft of the letter
since Mr. Woods is away.

Irving S. Friedman

(Letter from Redaders Digest)

IDA REPLENISHMENT

Hague Meeting, November 7 and 8, 1967

A meeting of senior officials of Part I countries on IDA replenishment was held in the Hague on November 7 and 8, 1967. Part I countries represented were France, Belgium, the Netherlands, Italy, Germany, the United Kingdom, Japan, Austria, Sweden, Denmark, Norway and the United States.

The purpose of the meeting was twofold: to ascertain what magnitude of replenishment individual countries were tentatively prepared to support and to gauge the initial reaction of others to the U.S. proposal for balance of payments safeguards for donor countries in serious deficit.

On the question of magnitude Canada, Denmark and Sweden pledged support for an IDA replenishment of the order already proposed by the United States (\$2.4 billion over a three-year period). The United Kingdom, on a medium range, suggested an aggregate of \$1.5 billion over the same period but did not rule out a higher figure if other countries could agree on it. Four of the Common Market countries - France, Germany, Italy and Belgium - were non-committal and the Netherlands, while showing sympathy for the British position emphasized that its own posture could not be determined until after discussion with its Common Market partners. On the relative shares of each country to the IDA pool Japan, the Netherlands and Austria complained that their percentages were too high; no one volunteered to increase their proportionate contribution.

On balance of payments safeguard France, and to a lesser extent Germany and the Netherlands, were particularly critical of the U.S. proposal. Other countries, having stated their objections, were prepared to concede that U.S. Congressional approval may be dependent on some form of balance of payments safeguard. A decision was taken to convene a working party in Washington during the first week of December to investigate the various aspects of this issue.

A second full meeting of officials was proposed for the second half of December after the meeting of Common Market Finance Ministers had been held.

At a subsequent Washington meeting the U.S. indicated willingness to consider counter-proposals when other Part I donors had indicated the magnitudes of IDA replenishment that they were prepared to support.

London Meeting, December 18 and 19, 1967

Magnitude

Four of the Six Common Market countries -- the Netherlands was the exception (Luxembourg was absent) -- intimated that they regarded a 50% increase in IDA resources -- from \$250 million per annum to \$375 million per annum over the next three years -- as appropriate under present circumstances. A similar viewpoint was expressed by Australia. There was some suggestion that the \$375 million might be raised to \$400 million. The Netherlands, Norway and the United Kingdom were agreeable to a doubling of IDA resources to \$500 million per annum; the latter were, however, willing to consider a higher amount if that was the general consensus of the meeting. Canada, Denmark, Sweden, and the United States reaffirmed their original position -- an IDA replenishment of \$2,400 million over

a three-year period, escalating from \$600 million in the first year to \$800 million in the second and \$1,000 million in the third. It was generally accepted that existing percentage shares should form the basis of new contributions.

Balance of Payments Safeguards

It was generally agreed that contributions should not be tied to balance of payments safeguards. At the same time most countries felt that, given Congressional and other exigencies, ad hoc arrangements could be made for the United States. While refusing to be a party to any such arrangements, France stated that it would not object to informal agreements mutually arrived at by others.

VISIT TO GERMANY (AND POSSIBLY ITALY AND FRANCE(?))

1. Purpose of trip should not be to repeat well-known views of President of IDA.
2. Purpose should rather be to exchange views on what to do next and acquaint some of largest contributors to IDA what President of IDA is thinking, as summarized below.
3. The time has come to settle on the ministerial level the principal elements in the IDA replenishment. The main reasons for this sense of urgency are:
 - (a) Immediate needs of IDA for commitment authority if it is to continue to be an effective instrument of help to the Part II countries, including its coordinating role in consultative and other similar groups.
 - (b) A number of difficult international economic matters (e.g. Fund and liquidity) outside of IDA are coming up for early consideration and further negotiation. These difficult matters will eventually take up limited time of ministers. Very helpful if basic questions on IDA can be settled before these issues absorb ministers.
 - (c) Danger that IDA may be brought into political arena. Eager to keep it as a technical institution devoted to development finance and not part of international tensions and bargaining.
 - (d) At coming UNCTAD Conference, best to be able to demonstrate genuine good-will by Part I countries. This would be evidenced by willingness to compromise views to get on with job of development.
4. The next step is essentially one of agreement among Part I members, particularly principal contributors. But area of disagreement/^{on}magnitudes still quite large. (Believe so-called balance of payments safeguards questions well advanced to solution if agreement can be reached on magnitude. Believe safe to proceed on assumption that "deferment" scheme along lines being discussed by experts will be proved generally acceptable.) Favors simplest and quickest possible method of getting a ministerial agreement on IDA.

5. IDA President has considered desirability of putting up for consideration of Part I ministers a proposal which represents a "consensus" of views of members on magnitudes and closely related question of progressive increases (referred to in past discussions as escalation) or some annual amounts. In view of past expressions of desire by Part I donors, particularly European, to be consulted or at least informed before President takes decisive steps, he has come to talk to ministers. (Germans most vociferous on this point last winter and since.)

6. At this point, President can use discretion on how far he goes in Europe in talking "numbers." He could indicate that in the interests of harmony, he is thinking of formulating a "consensus" view. This means not accepting the views of the slowest boat but also not accepting the views of the fastest boat in the convoy. Instead all views will be reflected in his "consensus" proposal. In any case, he is particularly anxious to speak to the Germans (and perhaps to the French and Italians) because they are now on the low side compared to others and any consensus view would necessarily be higher than their current views.

7. The President could also air specific concrete thoughts on numbers. Using the concept of a weighted average as being entirely neutral and unbiased, he could weight the suggestions on magnitudes of donors by their percentage share in total IDA contributions. Also taking into account the large weighted majority in favor of progressivity or escalation, he could reasonably incorporate escalation into any consensus view. Combining these thoughts, he could suggest replenishment at \$400 million, \$600 million and \$800 million for three years, since the weighted average of suggestions already made by Part I donors is about \$600-625 million, even leaving aside the implications of the U.K. and Netherlands willingness to go higher if others so agree. There are a number of possible variants including adding a fourth year, say \$400, \$600, \$800 and \$1,000 million. No escalation would mean \$600 million a year.

8. After listening to the Europeans visited and possibly further discussions with the U.S., Canada, (Sweden and Netherlands), he could decide what concrete settlement,

if any, to propose. His European visit might convince him that nothing would be gained by such an initiative on his part, but this judgment is too early to make.

ISFriedman:rgw
January 1, 1968