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THE WORLD BANK

Washington, D.C.

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The World Bank

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Washington DC 20433

Telephone: 202-473-1000

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PUBLIC DISCLOSURE AUTHORIZED

series 5540

Irving S. Friedman Chron Files

1965 (2)



 **Archives**
1598695
R2000-036 Other #. 1 Box # 210170B
Irving S. Friedman - Chronological File - 1965 Correspondence - Volume 2

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WBG Archives**

Mr. M. M. Mendels

July 28, 1965

Irving S. Friedman

Annual Meeting - Observers

I would appreciate it if Mr. Walter Loucheim, investment banker, of 404 Walker Building, 734 15th Street N. W. Washington, 20005, could be extended an invitation to attend the forthcoming Governors' Conference as an observer. I believe there are strong reasons for extending this invitation.

Mr. Erwin Schuller, an international financial consultant, 250 East 65 Street, New York City, has approached me about attending the Conference as an observer. I would be happy to have him receive an invitation, if possible.

ISF:pr1

July 28, 1965

Dear Bede:

Thanks for your letter of July 23, and enclosed is the text of the remarks given at the International Economic Association Conference. I hope they will be of some help.

The UPI teletype was evidently picked up all over the place. Right after giving the talk I left for the Paris DAC meetings, and found myself constantly explaining the "taken out of context" bit. However, I found it all very interesting and certainly stimulating.

It would be nice to see you again - when are you coming to Washington?

Warm regards,

Sincerely yours,

Irving S. Friedman

Mr. B. B. Callaghan
Managing Director
Commonwealth Banking Corporation
Sydney
New South Wales
Australia

ISF:prl

Mr. M. M. Mendels

July 28, 1965

Irving S. Friedman

Annual Meeting - Observers

I would appreciate it if Mr. Walter Loucheim, (Planning Commission) of 404 Walker Building, 734, 15th Street N.W. Washington, 20005, could be extended an invitation to attend the forthcoming Governors' Conference as an observer.

Mr. Erwin Schuller, an international financial consultant, 250 East 65 Street, New York City, has approached me about attending the Conference as an observer. I would be happy to have him receive an invitation, if possible.

I believe there are strong reasons for extending these invitations.

ISF:prl

Irving S. Friedman

July 27, 1965

Bimal Jalan

AMA Briefing Session on "U.S. Balance of Payments"

I attended the American Management Association briefing session on U.S. Balance of Payments held in New York city, July 19 - 21, 1965. Mr. John R. Petty, Vice President of the Chase Manhattan Bank, New York, was in the Chair.

In the opening address Mr. Stefan E. Rundt, Head of S. J. Rundt and Associates, Consultants in International Business in New York City, warned that the "so-called moral suasion" and voluntary cooperation in reducing the outflow of dollars from the United States will at best have only short-term results. He expressed sharp criticism for using 'semantic acrobatics' or 'judiciously misquoting' statements that led to an 'absurd camouflage' of situations that and trends indicating shortcomings in the country's external accounts. "Men like de Gaulle were judiciously misquoted in our press and a stream of Washington releases became an avalanche designed to befuddle the real issues, namely the growing lack of confidence in the U.S. dollar and its management." To attain long range improvements in the payments situation, Mr. Rundt suggested that the Government "prune such wasteful spending as on Nato, Sukarno, and Nasser." His other suggestions included a rise in interest rates, special incentives for foreign investments in the U.S. and incentives for new exports as well as a tax holiday for the immediate repatriation of profits from direct foreign investment.

This discourse on U.S. balance of payments problem was followed by an excellent legal analysis of the various provisions of the "Interest Equalization Tax" by Mr. Battlett, a Detroit Tax Consultant, Mr. Walter Shirmer, President, Clark Equipment Company, Buchanan, Michigan; Mr. August Maffery, Senior Vice President, Irving Trust Co. New York; Mr. Douglas Lynch, of Douglas Lynch and Assocs. New York, and Mr. Erwin Schuller, an International Financial Adviser in New York city, talked about the effects of the recent governmental measures in the U.S. Banking and industries abroad. There was a general consensus that these measures were having a restrictive influence on U.S. industry and given the present liquidity shortage in Europe was bound to create financing difficulties for the existing U.S. companies abroad, which would be clearly undesirable. The strongest criticism was expressed against the government decision to include export-financing in this voluntary restraint program. The gravity of the U.S. payments problem was accepted, but it was felt that the reduction in U.S. expenditure abroad should take place on the government account rather than in the form of restricting private individual and banking expansion.

There were two governmental spokesmen - Mr. Robert Sammons, Adviser, Division of International Finance, Federal Reserve Board and Mr. Lawrence McQuade, Assistant to the Secretary of Commerce. Mr. Sammons stated that the cooperation of banks in the voluntary program to date was extremely impressive "all reporting banks were under the ceiling by a consolidated \$300 million." He also denied the assertion made by some previous speakers that export financing has been shifted from commercial banks to the Export-Import Bank.

Irving S. Friedman

July 27, 1965

Mr. McQuade emphasized all that could be done to curb governmental expenditures abroad was being done and that any further drastic reduction in U.S. programs abroad could not be undertaken without injuring the long-term U.S. interests. He agreed that so far the response to the voluntary program has been very encouraging, but warned that there was no cause for complacency yet. It would take sometime before the balance is achieved, and during this period the best cooperation of the business community is needed.

There was a symposium on international liquidity - Mr. Gengo Suzuki, Executive Director, International Monetary Fund; Mr. John Popkin of Sun Life Assurance Co. of Canada, Mr. Albert Cooper of Westminster Group of Banks, and Mr. Louis Mendes, President, Broadhouse and Co. of New York participated. Mr. Suzuki on the basis of Japanese post-war experience asserted that "the availability of credit facilities on the present basis, accompanied by a reasonable exercise of balance of payments discipline will, in the long run, be more useful in assuring economic growth with stability than a more automatic access to external resources." The other participations called for "new international monetary arrangements" with more automatic access to international credit facilities.

My own participation in the discussions was confined to asking questions; among the questions I raised were:

1. Mr. Rundt had emphasized the waning confidence in dollar since 1957. I couldn't find much evidence for this in his statement. In reply he said that he had deliberately exaggerated this point in order to "warm up his audience". I was supported by some other participants during the discussion, and I asked Mr. Rundt "whether it would be too far-fetched to suggest that the ability of the U.S. to run deficits or to put it the other way round, the willingness of European countries to extend credit to the U.S. was in itself an affirmation of the prevailing strength of the dollar." Mr. Rundt said it may be true now, but need not be true in later years unless the U.S. took appropriate measures to correct the deficit. The present measures, to Mr. Rundt, were not "appropriate".
2. Mr. Rundt had suggested that higher interest rates would solve the U.S. problem to a large extent. I asked that if his premise about the waning strength of dollar was correct and if there was so much speculation against the dollar, "what reason was there to believe that higher rates would be successful in the U.S. when in the U.K. they haven't had any noticeable favorable effects." Mr. Rundt did not answer this question.
3. There was some discussion on the shortage of available funds in Europe. I asked, "whether it was a reflection of the inadequacy of domestic savings or a reflection of the deficiency of the capital market in channelling available savings into desired investments. There was a feeling that it was mainly the deficiency in the structure of the capital markets.
4. It was widely suggested that one of the possible ways of overcoming shortage of available funds in Europe would be an extension of the Euro-dollar market. The suggestion was warmly welcomed, but it was considered unrealistic. I asked Mr. Sammons if the Federal Reserve would favor such an expansion, presuming that it was feasible. Mr. Sammons hedged his reply, but said that so far he was not aware of any opposition in the Federal Reserve to the idea of an expanding Euro-dollar market.

Mr. Woods

July 28, 1965

Irving S. Friedman

"Scientific American" Article

I would like to bring the attached article to your attention since I am sure that you will find it interesting. However, if you don't have the time to read it I would draw your attention to the first few sentences of the article and the charts on page 22. The figures given might be interesting spice to add to some speech when contrasting the developed and less developed worlds.

Attachment: "The Support of Science in the U.S."
Scientific American - July 1965

Mr. Mendels

July 29, 1965

Irving S. Friedman

Documents for DAC Meeting

I would like to make the following suggestions with respect to future references to the two documents which were prepared for the DAC Ministerial Meeting.

I believe that it would be desirable to refer to the document Sec65/196, which was circulated to the Board on July 21, as the "President's Address to the DAC" and Sec65/196/1, which was given similar circulation on July 22, as the "President's Statement for the DAC Meeting". This was the language used in the transmittal letter to the Governors. I believe that it would be better not to refer to it as a "background paper" since I have had a number of occasions to use the words "background paper" or "papers" for the unpublished material on which the written statement was based.

cc: President's Council
Mr. Graves
Mr. Kamarok



Record Removal Notice

File Title Irving S. Friedman - Chronological File - 1965 Correspondence - Volume 2		Barcode No. 1598695		
Document Date 7/30/1965	Document Type Memorandum			
Correspondents / Participants To: J. M. Stevens From: Irving S. Friedman				
Subject / Title Visit to South America				
Exception(s)				
Additional Comments Declassification review of this record may be initiated upon request.		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. <table border="1"><tr><td>Withdrawn by Bertha F. Wilson</td><td>Date August 16, 2023</td></tr></table>	Withdrawn by Bertha F. Wilson	Date August 16, 2023
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Record Removal Notice

File Title Irving S. Friedman - Chronological File - 1965 Correspondence - Volume 2		Barcode No. 1598695	
Document Date 7/30/1965	Document Type Memorandum		
Correspondents / Participants To: Rene Larre From: Irving S. Friedman			
Subject / Title Visit to South America			
Exception(s)			
Additional Comments Declassification review of this record may be initiated upon request.		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.	
		Withdrawn by Bertha F. Wilson	Date August 16, 2023



Record Removal Notice

File Title Irving S. Friedman - Chronological File - 1965 Correspondence - Volume 2		Barcode No. 1598695		
Document Date 7/30/1965	Document Type Memorandum			
Correspondents / Participants To: John C. Bullitt From: Irving S. Friedman				
Subject / Title Visit to South America				
Exception(s)				
Additional Comments Declassification review of this record may be initiated upon request.		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
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Record Removal Notice

File Title Irving S. Friedman - Chronological File - 1965 Correspondence - Volume 2		Barcode No. 1598695		
Document Date 7/30/1965	Document Type Memorandum			
Correspondents / Participants To: Otto Donner From: Irving S. Friedman				
Subject / Title Visit to South America				
Exception(s)				
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Record Removal Notice

File Title Irving S. Friedman - Chronological File - 1965 Correspondence - Volume 2		Barcode No. 1598695		
Document Date 7/30/1965	Document Type Memorandum			
Correspondents / Participants To: Mejia-Palacio From: Irving S. Friedman				
Subject / Title Visit to Brazil				
Exception(s)				
Additional Comments Declassification review of this record may be initiated upon request.		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.</p> <table border="1"> <tr> <td>Withdrawn by Bertha F. Wilson</td> <td>Date August 16, 2023</td> </tr> </table>	Withdrawn by Bertha F. Wilson	Date August 16, 2023
Withdrawn by Bertha F. Wilson	Date August 16, 2023			

Mr. George D. Woods

July 16, 1965

Irving S. Friedman

BIS Annual Report 1964-65

In response to your query about the notable sections in the above report, I would like to draw your attention to page 9 and pages 53-56, where the BIS takes a rather critical view of United States policies. Some of the statements in these pages are particularly interesting, e.g.,

"If doubts exist on the longer-term efficacy of these measures [the recent U.S. measures], as they do, they come from two considerations. First after the extended series of external deficits, the reserve position of the United States needs to be strengthened to restore full confidence in the dollar....Hence, the problem of securing a more fundamental equilibrium still remains". (page 9, paras. 2-3, underlining added.)

and "The balance of payments deficit, which in recent years has mainly reflected heavy capital outflows, is itself prima facie evidence that credit policy has in fact been excessively easy". (page 53, para 4.)

and "Excessive credit ease is also suggested by the reputed deterioration in the quality of loans". (page 54, para 2.)

and "Indeed, because of their [high interest rates] contribution towards improved external equilibrium, domestic growth would be more soundly based". (page 56, para 1.)

There are two other sections which have been introduced for the first time and might be of interest: (a) International monetary system (pp.26-32). It summarizes the present state of debate on international liquidity, and argues for correction of imbalances between countries through the use of interest rates and monetary policy rather than controls--voluntary or otherwise.

The report recognizes that with the elimination of the U.S. deficit the need for an adequate margin of additional liquidity for increasing reserves as well as to finance "reasonable balance of payments swings" would become more evident. It, however, does not favor any one suggested solution vis-a-vis another, but points out that "without the complication of an excessive U.S. deficit, it should not be impossible to improve existing arrangements and to devise new ones which offer reciprocity, coverage of exchange risks and flexibility in the terms of the asset of liability relationship, and at the same time incorporate safeguards against abuse."

(b) Problems of developing countries (pp.32-36). The problem of over-valuation of currencies and internal inflation in developing countries is singled out for particular attention. Apart from arguing for correction of these distortions on the part of developing countries, the report suggests that advanced countries should assist in the development process by increasing their aid and trade with these countries, and by softening the terms of their assistance.

ISF:prl

Mr. Nespoulos Neville

July 16, 1965

Irving S. Friedman

Supplier Credits

When thinking about the figure that would be agreed, on how much suppliers' credit or other indebtedness a country could incur, it might be useful to think in terms of a range rather than a specific figure. This would facilitate international agreement and might make it easier to administrate.

This suggestion was made to me by Mr. Woods.

July 21, 1965

Dear Robin:

I hasten to acknowledge receipt of your letter of July 15. I have read it through but have not had a chance to give it the full attention it merits. The hurry is that I am leaving momentarily for Europe for the DAC Meeting. In the meantime I am bringing your letter to the attention of others in the Bank concerned and hope to be able to give it a more detailed reply. Perhaps we will meet in Paris, if so we might discuss it there at least in a preliminary fashion.

As I mentioned to you at our first meeting I have strongly advocated close cooperation between the Bank and yourself. I think you can be assured that we will go just as far as possible in making our material available to you.

With warm regards,

Yours,

Irving S. Friedman

Mr. Robin Marris
Ministry of Overseas Development
Eland House
Stag Place
London, S.W. 1.
ENGLAND

P.S.

Incidentally your letter of July 16 arrived at the same time. I am glad you found the additional table of use.

July 21, 1965

Dear Gabriel:

I am answering your letter on d'Aroma's visit to Washington. I am sorry to say that I won't be in Washington at the time as I am scheduled to be in South America during the first three weeks of August. However, I will pass this letter on to Mr. Kamarck, whom I believe d'Aroma knows. I am sure he will be glad to be of any help that he can be as well as introducing him to others in the Bank.

I too have been looking forward to seeing you in Washington at the Governors Conference. I expect to leave this afternoon for Paris for the DAC Meeting. I don't know who is going to be there, it would be very nice if it happened that you were there. If not, we will have much catching up to do in Washington in September.

With warmest regards to yourself, Helene, and the girls from Edna and myself,

Yours,

Irving S. Friedman

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

ISF:prl

cc. Mr. A. Kamarck

July 21, 1965

Dear Don:

I read the draft of your article, I think it makes sense and I have no suggestions.

I do hope that we will be seeing each other soon. Our rather mixed up summer is going along the following lines. I am leaving this afternoon for a quick trip to Paris and Stockholm. I hope to see Ivar Rooth in the latter. Then I come back on next Monday or Tuesday, and we leave the following weekend for Latin America. Our present plans are to spend about three weeks there in Brazil, Argentina and Chile. Hopefully Johnnie will come along with us. If time permits I would like to take about a week off after the trip and stay home quietly. It would be the last weekend in August.

The job is still very interesting and a lot of work, however, I don't feel quite as green as I did nine months ago.

With warmest regards to the family,

Yours,

Irving S. Friedman

Mr. Don L. Waage
Public Relations
Investors Diversified Services, Inc.
Minneapolis
Minnesota

ISF:prl

July 21, 1965

Dear Jack:

Please excuse the delay in answering your letter of June 17, but it has not been due to neglect. I circulated your letter among those most interested in the Bank in the hope that they would come up with a name, but they haven't. I don't really feel qualified yet to have a personal view of my own on the people doing the kind of work you describe. I hope to remedy this as time goes on.

How are you enjoying Pittsburgh? I do hope we will have occasion to see each other soon.

Warm regards,

Yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. John P. Powelson
Professor of Economic Development
Graduate School of Public and
International Affairs
University of Pittsburgh
Pittsburgh, Pa.

ISF:prl

3

July 14, 1965

Dear Sir:

Mr. Woods has asked me to send to you a copy of the statement which was sent last night to Secretary Fowler.

This statement was prepared for the Ministerial Meeting of the Development Assistance Committee in Paris on July 22 and 23, 1965. It has also been sent to the Bank Governors of the DAC countries and Sweden.

Yours sincerely,

(signed) Irving S. Friedman

Irving S. Friedman
The Economic Adviser to the President

Enclosure

Mr. Livingston T. Merchant
Bridge Street
Chatham
Massachusetts

{Sent by U.S. ED's office}

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PERSONAL

WBG ARCHIVES

July 14, 1965

Dear Bill:

This was sent to Secretary Fowler yesterday under a covering letter indicating that it was also being sent to other Bank Governors for DAC countries and Sweden. I am also sending a copy to Bell and copies to the relevant ED's of the Bank.

Irving

Enclosure

Mr. Dale (Fund)

July 15, 1965

I. M. D. Little - Aid to India and Pakistan

The paper is on aid to India. Pakistan is only perfunctorily touched upon, and the argument does not go beyond indicating that the proportion of investment expenditure financed through aid is still very high in Pakistan - much higher than in India.

Mr. Little is much impressed by the magnitude of India's problems, her sophisticated planning, her achievements - however sporadic, the scale of her own efforts to help herself etc. He is most apologetic about India's failures - in the nature of the case mistakes were bound to happen. But he points out that at least part of the cause of her balance of payments crises lies in the low level of aid to India (following partly from her own under-estimation of import requirements) and the terms of that aid. If the 'need' and the genuineness of the developmental efforts of a country were to be the criteria for distribution of aid, India has received ~~xxxx~~ too little and in too unsuitable a form. Mr. Little, therefore, argues that -

(i) India can effectively absorb much larger quantities of aid. For the Fourth Plan he estimates that likely external capital requirements could be anywhere near \$2 billion a year. He suggests that consortium aid to India should be raised to at least \$1.5 billion per year;

(ii) The proportion of non-project aid should vastly increase. "Insufficiency of general purpose aid which can be effectively used for imports of materials and components, especially imports for agriculture (e.g. fertilizers), not only means that the economy operates below capacity, but also increases the amount of control and administration required." Aid and planning should now concentrate on utilising the existing excess capacity in industries rather than creation of new' output capacity. This can only be possible if the proportion of non-project aid is substantially increased.

B.Jalan

July 15, 1965.

Industrial Policy in Developing Countries

Paper by Loreto M. Dominguez

The paper has two main sections - (i) on relationship of trade to industrialization and, (ii) on the economic effects of industrial projections. The paper concludes by pointing out the advantages of economic integration among small countries possessing complementary resource bases.

The argument of the first section is fairly straightforward. Industrialization enhances growth prospects of a developing country, but it does not necessarily reduce the demand for imports. "At every stage of industrial growth developing countries require certain minimum level of imports which if not forthcoming will prevent the process of industrialization from moving forward." As a result, it is suggested that an essential basis for successful industrialization is the ability to generate exchange earnings - through exports or other means - sufficient to finance import requirements.

This is a point well made in so far as it stresses the need for import substitution which is efficient; indiscriminate import substitution is self-defeating since the need for imports to sustain the inefficient industrial structure increases the current and subsequent periods (as evidenced by the experience of many Latin American countries). But the next section on the 'right' level of protection is unsatisfactory - the argument is only that excessive protection is costly, it distorts the cost structure and promotes inefficient industries; but does not provide an answer to the question - at what level protection becomes excessive? How much is too much? The important point is that industries to which protection is given should be potentially competitive internationally, though in the short period they may be uncompetitive. This is the essence of the familiar 'infant industry arguments' for protection. Mr. Dominguez, however, in judging the efficiency of industries has the notion of current costs rather than potential costs. This concept, if applied, would make the industrialization base too restrictive - if an industry is currently competitive, it requires no protection. Thus pushed to its logical conclusion, Mr. Dominguez's position would lead to an argument for no protection at all, rather than for no excessive protection.

July 14, 1965

Dear Mr. Faber:

My wife and I would like to express our regrets in not having been able to come to your reception on Sunday evening. We had fully planned to come but in the late afternoon one of our sons had a minor accident at home. He was working in the aquarium and crushed some glass in his hand. We had to consult with the doctor and then it took us a few hours before the crisis was over.

I do hope we will have the occasion to see you soon.

Sincerely yours,

Irving S. Friedman

Mr. Paul Faber
International Monetary Fund
Washington D.C.

Mr. Kamarck

July 14, 1965

Irving S. Friedman

Cable from Console

Would you please take care of this. I have asked Mr. Sarma to try and inform himself on the UNCTAD work but I don't know whether he has yet had a chance to do this briefing. However, you might wish to tell him about this and chat with him if time permits.

July 14, 1965

Dear Mrs. Castle;

Mr. Woods has asked me to send to you a copy of the statement which was sent last night to the Governor for the Bank for the United Kingdom.

This statement was prepared for the Ministerial Meeting of the Development Assistance Committee in Paris on July 22 and 23, 1965. It has also been sent to the Bank Governors of the DAC countries and Sweden.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mrs. Barbara Castle
Minister of Overseas Development
Ministry of Overseas Development
Eland House
Stag Place
London S. W. 1
England

ISFriedman/prl

July 14, 1965

Dear Mr. Bell:

Mr. Woods has asked me to send you a copy of a statement which was sent last night to Secretary Fowler. It has also been sent to the other Bank Governors of the DAC countries and Sweden. It was prepared for the Ministerial Meeting of the Development Assistance Committee in Paris on July 22 and 23, 1965.

Sincerely yours,

Irving S. Friedman

Mr. David Bell
AID
Department of State
Room 5942
Washington, D. C.

ISF:pr1

Mr. John C. Bullitt

July 14, 1965

Irving S. Friedman

DAC Ministerial Meeting - July 22 and 23, 1965

Attached hereto is a statement which Mr. Woods sent last night to the Bank Governors of the DAC countries and Sweden. It was prepared for the Ministerial Meeting of the Development Assistance Committee in Paris on July 22 and 23, 1965.

Attachment

ISF:prl

Mr. Pieter Lieftinck

July 14, 1965

Irving S. Friedman

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ISF:prl

Mr. Gengo Suzuki

July 14, 1965

Irving S. Friedman

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Mr. Andre van Campenhout

July 14, 1965

Irving S. Friedman

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ISF:prl

Mr. Vilhjalmar Thor

July 14, 1965

Irving S. Friedman

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Mr. J. M. Stevens

July 14, 1965

Irving S. Friedman

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ISF:prl

Mr. S. J. Handfield Jones

July 14, 1965

Irving S. Friedman

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Mr. Rene Larre

July 14, 1965

Irving S. Friedman

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Mr. Otto Donner

July 14, 1965

Irving S. Friedman

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Attachment

ISF:pr1

Mr. Joaquin Gutierrez Cano

July 14, 1965

Irving S. Friedman

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Attachment

ISF:prl

July 13, 1965

My dear Mr. Minister:

As you are undoubtedly aware there is to be a Ministerial Meeting of the Development Assistance Committee in Paris on July 22 and 23, 1965. It is my intention to attend this meeting accompanied by several senior officials of the Bank.

In preparation for this meeting, which will be dealing with some very important issues affecting the developing countries, I am enclosing a statement on current trends and outlook in development finance, which I believe you will find of interest. This letter and enclosure is being sent to the Bank Governors of the DAC countries and Sweden.

I would appreciate it if this document were also brought to the attention of those officials of your Government who are planning to attend the DAC Ministerial Meeting.

Yours sincerely,

(Signed) George D. Woods

George D. Woods

Enclosure

The Honorable
Valéry Giscard d'Estaing
Ministre des Finances
Ministere des Finances
93, rue de Rivoli
Paris 1^{er}
France

Cleared with Mr. Demuth
ISFriedman/dm
7/13/65

July 13, 1965

Excellency:

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I would appreciate it if this document were also brought to the attention of those officials of your Government who are planning to attend the DAC Ministerial Meeting.

Yours sincerely,

{Signed} George D. Woods

George D. Woods

Enclosure

His Excellency
Kurt Schmoecker
Bundesminister fuer Wirtschaft
Bundesministerium fuer Wirtschaft
53 Bonn a Rh.
Germany

Cleared with Mr. Demuth
ISFriedman/prl

July 13, 1965

Sir:

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Yours sincerely,

(Signed) George D. Woods

George D. Woods

Enclosure

Mr. Otto Muller
Permanent Under Secretary of State
Ministry of Commerce
Slotsholmsgade 10
Copenhagen K,
Denmark

Cleared with Mr. Demuth
ISFriedman/dm
7/13/65

July 13, 1965

My dear Mr. Minister:

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George D. Woods

Enclosure

The Honorable
Walter L. Gordon
Minister of Finance
Department of Finance
Ottawa, Ontario
Canada

Cleared with Mr. Demuth
ISFriedman/dm
7/13/65

ISF

July 13, 1965

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Yours sincerely,

(Signed) George D. Woods
George D. Woods

Enclosure

His Excellency
Andre Deque
Ministre des Finances
Ministere des Finances
12, Rue de la Loi
Brussels
Belgium

Cleared with Mr. Demuth
ISFriedman/dm
7/13/65

July 13, 1965

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George D. Woods

Enclosure

The Honorable
Dr. Antonio M. Pinto Barbosa
Minister of Finance
Ministry of Finance
Lisbon
Portugal

Cleared with Mr. Demuth
ISFriedman/prl

July 13, 1965

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Sincerely yours,

(Signed) George D. Woods

George D. Woods

Enclosure

His Excellency
Trygve Lie
Minister of Commerce and Shipping
Ministry of Commerce and Shipping
Oslo - Dep.,
Norway

Cleared with Mr. Demuth
ISFriedman/prl

July 13, 1965

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George D. Woods

Enclosure

Dr. Guido Carli
Governor
Banca d'Italia
Via Nazionale 91
Rome
Italy

Cleared with Mr. Demuth
ISFriedman/pr1

July 13, 1965

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George D. Woods

Enclosure

His Excellency
G.E. Strang
Minister of Finance
Kungl. Finansdepartementet
Stockholm 2
Sweden

Cleared with Mr. Demuth
ISFriedman/dm
7/13/65

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George D. Woods

Enclosure

His Excellency
Dr. Wolfgang Schmitz
Federal Minister of Finance
Himmelpfortgasse 8
Vienna I/1
Austria

Cleared with Mr. Demuth
ISFriedman/dm
7/13/65

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George D. Woods

Enclosure

His Excellency
Takeo Fukuda
Minister of Finance
Embassy of Japan
2520 Massachusetts Avenue NW
Washington : D.C.

Cleared with Mr. Demuth
ISFriedman/dm
7/13/65

July 13, 1965

My dear Mr. Secretary:

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Yours sincerely,

(Signed) George D. Woods

George D. Woods

Enclosure

The Honorable
Henry H. Fowler
Secretary
United States Treasury
1500 Pennsylvania Ave., NW
Washington, D.C.

Cleared with Mr. Demuth
ISFriedman/dm
7/13/65

July 13, 1965

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George D. Woods

Enclosure

The Right Honorable
The Earl of Cromer
Governor
Bank of England
Threadneedle Street
London E. C. 2
England

Cleared with Mr. Demuth
ISFriedman/prl

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George D. Woods

Enclosure

His Excellency
Dr. A. Vondeling
Minister of Finance
Ministry of Finance
The Hague
Netherlands

Cleared with Mr. Demuth
ISFriedman/cn
7/13/65

Messrs. P. Lira, N. Neuville, Halley

July 8, 1965

Irving S. Friedman

Multilateral Investment Guarantee

I think you will be very much interested in this and more particularly how it affects our thinking on the Suppliers Credits Study and proposals.

Attachment

ISF:pr1

Mr. Demuth

July 9, 1965

Irving S. Friedman

Organizational Bulletin - Development Services Department

I thought you might be interested in seeing Andy's comments.
I would gather that in any case it is too late to affect the
Organization Bulletin.

Attachment

Mr. Adler

July 9, 1965

Irving S. Friedman

American Management Association - Meeting July 19,21, New York

Mr. Kamarck sent along the brochure on the above meeting and I propose to send Bimal Jalan to attend this. I believe your office handles the registration. Thank you.

Mr. Lejeune

July 9, 1965

Irving S. Friedman

Absences During the Summer

Since I know you are trying to keep a chart of travel plans of senior officials I feel you might be interested to know that I am planning to be in South America on Bank business during the first three weeks of August, and, hopefully, for a week's holiday after that.

Mr. Kamarck

July 9, 1965

Irving S. Friedman

Application from Amalio Petrei

For urgent attention: This looks like a good applicant, and I think it ought to be handled on an urgent basis, particularly since we have fussed so much with Latin American Executive Directors for not coming up with good candidates. If you are not interested I will look at this one myself.

Attachment

Mr. San Miguel

July 9, 1965

Irving S. Friedman

Application from Mr. Petrei

Thank you very much for sending me the application of
Mr. Amalio Petrei. We will be looking into it.

Mr. Bimal Jalan

July 8, 1965

Irving S. Friedman

BIS Annual Report 1964-65

Your draft on above subject: Needs an introduction which in effect indicates that it is a reply to Mr. Woods's request.

Also, please do a brief summary of the last two points.

Mr. Sarma

July 8, 1965

Irving S. Friedman

Replenishment of IDA

Please send me a note as to whether Mr. Wilson's comments have already been taken care of in one way or another in the revised version.

I do not want another version but rather wish to know how to speak to Mr. Wilson about this.

Mr. Chaufournier

July 8, 1965

Bimal Jalan

Studies

In response to your request of July 7, I give below a list of studies now in progress under Mr. Friedman's direction:

1. A report on the UK/Swedish Scheme on Compensatory Financing -- this is for UNCTAD. Messrs. Gulhati, Scioli, Thalwitz, Hablutzel, Maccone and Isaiah Frank have been working on this. This report is expected to be out in a month or two.
2. A study on "Suppliers' Credits" -- I understand Messrs. Pereira Lira and Nespoulous-Neuville are going to talk to you about this study.
3. Capital requirements of developing countries -- Messrs. Avramovic and Sundrum are engaged in the task of refining the methodology of the preliminary study that was circulated to the Economic Committee
4. A chapter on "Major Developments in the World Economy" for the Annual Report. Mr. Kochav has been attending to this. A draft of the chapter has already been circulated.
5. IDA Replenishment. Mr. Sarma has been working on this. A draft of a chapter on this subject for the Annual Report has been circulated.

This, of course, is only a list of major studies; apart from these, the economists on Mr. Friedman's staff are engaged in a number of other continuing assignments: European capital markets, U.S. and U.K. balance of payments, liaison with DAC Working Parties, Proceedings in UNCTAD, working with the Economics Department on Bank economic reports, etc.

cc: Mr. Friedman

Mr. Kamarek

July 8, 1965

Irving S. Friedman

Cable from Mr. Dudley Seers

I would appreciate if someone in your Department could check this out as Mr. Hulley, who worked on it, is now away.

Members of the Economic Committee

July 7, 1965

Irving S. Friedman

I would appreciate receiving from you a list of the people in your respective Departments or groups who are regarded as being engaged in economic work and their current assignments.

I intend to have a discussion of the Economic Committee on the economic work being done in the Bank.

Messrs. Kamarck, Avramovic, Sarma, Pereira Lira,
Nespoulous-Neuville, Jalan

July 7, 1965

Irving S. Friedman

UK/Swedish Proposal drafts.

I would appreciate if you would give this a very high
priority. I hope to be able to discuss it with you at the
end of this week or the beginning of next.

Attachments

Chapters 1-5

Files

July 6, 1965

Bimal Jalan

DAC Expert Group on "Analytical Techniques in Capital Requirements Studies" - Meeting of July 6, 1965

Mr. Sundrum and Mr. Gulhati are to be in Paris on July 8 and 9, 1965 to (a) attend the meeting of the DAC Expert Group, (b) to meet representatives from German Government in response to its desire to discuss the Bank study on capital requirements. The meeting was called to discuss the Bank's attitude vis-a-vis the DAC Expert Group and to provide guidelines to its representatives to the forthcoming meeting. Messrs. Friedman, Kamarck, Avramovic, Sundrum and Gulhati attended.

Mr. Kamarck said that it was inadvisable for the Bank to get involved in DAC studies - irrespective of whether they were written by an expert group or a working party. Expert groups are no doubt intended for discussions of technical issues, and as long as they confined themselves to these issues only, he had no objection to Bank participating in these. But in fact, the Expert Groups do get into matters of policy; and in this connection he referred to the recent interim report of the DAC group on "Analytical techniques" which had a detectable policy bias, and to the agenda for the forthcoming meeting, which raised all sorts of policy and 'country' questions.

Mr. Friedman said that the purpose of the DAC Expert Group, as he understood it, was only to try and assess the methodology of the various capital requirements studies and no more. The meeting to which Mr. Sundrum and Mr. Gulhati were going was different from the meeting of various working party groups which discussed various country situations; it was doing a specific technical task, and the Bank should contribute to these discussions. Mr. Friedman, however, appreciated Mr. Kamarck's fears that an Expert Group might nevertheless find itself taking a stand on major policy issues, but he hoped that the Bank's representatives through their contribution to the discussions, would try and prevent it from happening.

Mr. Gulhati said that the Expert Group no doubt discuss policy aspects of questions under consideration, but only in order to explore the consequences of various alternative policies rather than to arrive at definite policy conclusions. These technical explorations are meant to help the Working Parties and Ministerial delegates in decision-making, but he agreed that the drafting of the agenda submitted to the Bank perhaps gave the erroneous impression that the Expert Group might take a stand on substantive policy issues, but this is certainly not the intent of the present Expert Group. Mr. Avramovic also supposed the view that the Bank should participate in these technical discussions, but stop short of getting involved in country discussions.

Summing up, Mr. Friedman said that the Bank should stay in the Expert Group, but only insofar as it was meant to discuss methodology. If the Bank's representatives feel that 'methodology' was being used to discuss policy questions, they should not hesitate to point this out to the Chairman of the group.

cc: Messrs. Friedman, Avramovic, Kamarck, Sundrum, Gulhati.

IDA REPLENISHMENT

By mid-1966 the resources of IDA will be nearly fully committed. If IDA is to continue to consider requests for credits, the international community must make a basic decision within the next few months on the scale of replenishment.

When viewed in perspective, the less developed countries have achieved impressive progress in the last decade and a half. Compared to annual growth rates for the Western world averaging 3 per cent over the last hundred years, the recent rates of increase of 4 to 5 per cent in the less developed countries would seem to provide solid grounds for hope that the problem of over-coming economic stagnation and poverty in the greater part of the world is at least on the way to being solved.

This optimism is clouded, however, by five important considerations:

- (i) The trend in the growth of GNP has been disappointing. In 1950-55 the rate of increase for less developed countries averaged 4.9 per cent; in 1955-60 it was 4.5 per cent; and in the period 1960-64 it averaged only 4.0 per cent.
- (ii) Because of the rapid growth of population, recent increases in GNP have been only about 2.0 per cent on a per capita basis.
- (iii) Exports of the less developed countries have lagged considerably behind the growth of world trade. Moreover, dependency on one or a few primary products still remains the rule and serious weaknesses exist in the markets for important agricultural exports.
- (iv) Such progress as has taken place has been achieved with the assistance of a steadily increasing flow of public resources which has now tapered off. Bilateral aid constitutes today 88 per cent of total capital resources flowing to less developed countries.

Whereas over the period 1952-61 this flow increased at an annual rate of 11.5 per cent, it has remained at a plateau since 1961. Nor has private long-term investment taken up the slack; in fact, it has remained in 1962-63 substantially below the levels of the preceding half dozen years.

- (v) External indebtedness of a number of the developed countries has reached or is reaching dangerously high levels. Payments on amortisation and interest offset a large part of the inflow of external capital and the magnitude is rising sharply.

The need of the less developed countries for external resources is steadily increasing. To some extent this reflects a failure to manage their affairs efficiently and wisely. However, it reflects more fundamentally the process of economic development, as the poorer countries of the world begin to achieve a certain measure of success in mobilising and directing their own limited resources for development, their need for external capital does not usually decline. On the contrary, it is likely to increase for a number of years. As basic political and economic institutions become established, as education and skills become more widely distributed, as administrative capacity and project preparation improve -- as all this groundwork is laid, the capacity to use capital effectively rises rapidly. At the same time the need for foreign exchange mounts, not only because import requirements typically grow more rapidly than domestic output but also because of the rapid accumulation of service obligations on past debt. It is a sobering fact that amortization, interest and dividends currently use up about \$6 billion per year, an amount equal to about half the gross flow of \$11.5 billion in public and private financial resources to developing countries from all sources.

On the basis of its knowledge of individual countries -- their capacity to generate domestic savings and exports, their ability to pursue satisfactory

economic policies, their need for imports and their ability to prepare sound projects and make effective use of capital for such projects, -- the Bank in a preliminary study has attempted to estimate external gross capital requirements of developing countries for the period 1966-70. Our conclusion is that, conservatively estimated, an additional \$2 to \$4 billion per year over present levels will be needed if feasible growth rates are to be achieved. Of this amount, approximately \$1.5 billion will be required simply to finance the increment in amortization, interest and dividends. The magnitude of assistance needed will, of course, be affected by the size and terms of any rescheduling operations which may take place in the immediate years ahead.

The questions confronting the international community are the extent to which it is prepared to make additional funds available and in what form.

As for terms of financial assistance a recent U.S. Government report noted that in the last few years there has been a steady hardening of the terms on which U.S. assistance has been provided and called attention to the rapidly diminishing capacity of developing countries to service additional debt. The United Kingdom has taken the statesman-like decision to make interest-free loans for development. Other creditors have also softened their terms but only slightly. The total external public debt alone of the less developed countries at the end of 1964 was over \$30 billion, and about \$8 billion per year will be required in 1966-70 merely to service debt and pay dividends on foreign private investment. In addition there are a number of countries, particularly the new countries in Africa, with their low levels of per capita income, coupled with poor savings potentials that cannot prudently undertake large external debts incurred on conventional terms. An ever increasing number of debt rescheduling operations with more and more countries is a theoretical possibility, but it will weaken the efforts to achieve the objectives of reduced dependency on official aid and of increasing reliance on private capital. In the view of

the Bank, the case is compelling for providing most of the additional resources for development on concessional terms, i.e. loans with long periods of maturity, extended grace periods and at times, low interest rates.

All development loans and credits involve considerable risks for the lending agency because of inevitable uncertainties about the future. Risks should be undertaken by the international lending agencies, but not those which arise from the unwillingness of countries to follow appropriate economic policies. No relaxation of performance standards should, moreover, be implied in an increase of external capital for developing countries on concessional terms. Soft loans must not be used as an offset to inefficient administration of development plans and projects or to inadequate efforts directed to mobilizing savings or increasing exports. The misuse of concessional assistance by any less developed country is likely to be at the expense of another less developed country; the developmental effort of a country must, therefore, stand up to very close scrutiny. To the extent that IDA is entrusted with the task of administering additional resources on concessional terms, it will continue to insist on high standards of performance on the part of recipient countries.

Big Numbers in Development

Compared to the first five thousand years of civilisation's existence, the present day movement on the part of the majority of the human race to overcome the miseries of poverty, and the commitment of the privileged minority to aid in this struggle, may well be the distinguishing feature of our age. While the general nature of the development process and the specific problems that arise during it are fairly widely recognized, there is not yet an adequate appreciation of the dimensions of this problem and the sheer scale of the effort required to combat it. I would here try to go into the world of what I call the "big numbers" in the hope that this would provide a perspective to the problem of development and an appreciation of the magnitude of crisis facing the world today. The "numbers" I refer to are global numbers compounded of different kinds of individual country situations, but they also provide the background against which developments in any one particular country can be discussed.^{1/}

The world of today is clearly divided between two groups of countries in the sense that with very few exceptions, countries can be classified as either developed or underdeveloped. It is roughly estimated that of the 2,400 million people on earth, about 1,600 million are living in the underdeveloped world and half as many in the developed world. These 1,600 million people living in underdeveloped countries, however, account for less than one-sixth of the total gross product in the world. Figures for 1962, which is the last year for which gross domestic product data are available, show that the total gross domestic product of developed countries was about \$1,000 billion compared with \$175 billion for the entire population of underdeveloped countries. As a result of this combined disparity -- in population as well as in productivity -- the per capita income in the developed countries is more than ten times higher than the per capita income in the underdeveloped countries. In 1962, for the countries

^{1/} In order to indicate only the rough orders of magnitude and to facilitate comprehension, I shall use round figures throughout.

belonging to the former group, the per capita estimated to be around \$1,500, which for the latter countries only about \$125.

Over the post-war period, underdeveloped countries have been working hard to increase their incomes -- the marginal rate of saving or the proportion of income-increases ploughed back into investment in countries has been as high as 30 per cent. This undoubtedly is an exceptional figure, but it is a fair generalization that underdeveloped countries have been trying, and in most cases succeeding, to save more and more of their incomes. In fact, recent studies show that the total national income of underdeveloped countries is growing at slightly higher rates than that of the developed countries. Growth rate in the developed world has been around 4 per cent, in the underdeveloped world as a whole just a little higher. But unfortunately this advantage is cancelled by a higher rate of population growth in the underdeveloped countries. In terms of per capita income, the growth rate of the developing countries has been in the region of 2 to 2.5 per cent.

This reveals the critical nature of the problem -- the gap in the standards of living between the two groups of countries has been widening, despite developmental efforts of the past few years. First, in terms of absolute level of gross national product -- the gross national product of developed countries is growing annually at the rate of \$40 billion, while that of developing countries only by about \$10 billion. In percentage terms, as I have said earlier, growth in underdeveloped countries has been slightly higher than in developed countries -- but the point is that the developed countries have been growing on a much larger base, and so in absolute terms, the addition to national product in developed countries has been much higher than in the underdeveloped ones. Secondly, the gap in the per capita income levels in the two groups of countries has been growing at a faster rate than the gap in the national product, because of the much higher rate of population in the underdeveloped countries.

The problem that faces us today is to help these underdeveloped countries to grow just a little faster -- in terms of their total domestic product and their per capita income. I do not underestimate the complexity of the problem and there are a great many things that the underdeveloped countries have to do for themselves in order to promote their rates of growth, but one of the critical needs, in the provision of which the developed countries can join hands, is the need for capital. One of the few ways to break out of the well known vicious circle of "low savings and low productivity" that the developing countries find themselves in, is for them to be able to call on other countries to make a portion of their own savings available in the form of loans and grants, and thus help alleviate the shortage of capital.

The magnitude of the difference in the capital availabilities in the two groups of countries can be seen by comparing the level of gross fixed capital formation, or the amount of investment undertaken in developed and developing countries. For 1962, the gross fixed capital formation in the developed countries is estimated to be over \$200 billion. In the United States alone it was close to \$90 billion. For the entire lessdeveloped world the figure is considerably less than \$20 billion. At the present time my guess is that investment in the developing countries is running at about \$25 billion per year at the utmost, whereas in the developed world it is probably running at about \$250 billion a year.

This is an important "big number". The figure for the total output is a result of past activities, it is the level of new investments which gives us a clue to the future. Is this figure of \$25 billion in investment in the developing countries satisfactory? I don't think so. The gross capital output ratio in the underdeveloped countries, which gives an indication of the productivity of capital is estimated to be around 3.5 per cent. Even for a modest 5 per cent growth in these countries, this gives us a figure for the desired level of

investment of between 17 - 18 per cent of Gross National Product. The present ratio of gross investment to Gross National Product falls considerably short of this.

What makes the role of foreign capital even more crucial is that it is not only one of supplementary inadequate domestic savings to finance a reasonable level of investment, but also increasing the availability of foreign exchange with which these countries can buy essential imported goods, which they can't produce themselves. These countries are in fact doing their best to economize the use of foreign exchange, for example, most of these have restrained the imports of consumer goods in order to be able to spend a greater part of their foreign income on capital goods. But unfortunately, while their needs for the imports of foreign goods to support their domestic investment has been continuously increasing, their exports have been more or less sluggish. During the last ten years (1954-1964), the exports of developing countries as a group have increased from about \$23 billion to \$35 billion. During the same period the exports of developed countries increased by \$62 billion from \$53 billion in 1954 to \$115 billion in 1964. Because of the comparative sluggishness in the exports of development countries, their import capacity has been severely restrictive, thus limiting their development efforts. It is in this field of foreign trade that divergence between different groups of countries within the underdeveloped countries is most marked. Even the limited growth in exports has been generally confined to a few oil producing or similarly placed countries, while other countries have been experiencing virtual stagnation in their import capacity.

Since the fifties the developed countries have been extending assistance through loans and grants which has helped the developing countries to bridge the gap between exports and imports on the one hand, and domestic investment and savings on the other. The total gross financial flows from developed into the developing countries has been in the region of \$11 billion a year over the last three years. If one takes out roughly \$2 billion in amortization payments from the

developing countries, we get a figure of about \$9 billion. Further income payments (interest and dividends) from developing countries are estimated to have amounted to \$1.5 billion. So we get a figure of about \$1.5 billion showing net transfer of financial resources from the developed to a developing country.

This brings me to my last "big number" -- the growing burden of interest and amortisation payments on developing countries' balance of payments. It is estimated that the total external public debt of all developing countries, including short-term debt, is well over \$30 billion at present, and amortization and interest payments on this debt may be nearly \$1 billion a year. The debt thus forms about 15 per cent of the combined national product of these countries, and debt servicing about 12 per cent of their total export earnings; for some individual countries, the proportions are much higher.

The magnitude of this global problem of underdevelopment is a measure of the effort required to overcome it; I have tried to put these "big numbers" together in this short paper in the hope that this would provide the broad framework against which major decisions regarding nature and terms of development assistance would be made.

Full Address:

Mr. Dudley Seers
Director of General Economic Planning
Ministry of Overseas Development
Eland House, Stag Place,
London S. W. 1. ENGLAND.

cc: Messrs. Avramovic
Cavanaugh
Kamarck
Hulley

June 28, 1965

Dear Dudley:

In response to your letter of 18th June, I am sending you herewith material which I hope answers your request. It consists of two sets of data:

- (a) The first set applies to the relation between the IBRD and the less-developed countries only. It includes IBRD disbursements to them, and amortization and interest received from them. The data are represented on the enclosed chart, which I believe is the one Geoffrey Wilson showed you.
- (b) The second set describes the relation between the IBRD and all countries. It includes disbursements amortization and interest; reserves; capital subscriptions; borrowings; and income. Income from investments and from loans are shown separately.

While some of the data, including the chart, have not been published in their present form, we see no reason why they cannot be, if you feel it would be helpful.

Concerning other relevant material on the increasing burden of indebtedness, I am sure you will have seen our recent publication Economic Growth and External Debt by D. Avramovic and associates (Johns Hopkins Press, 1964).

I hope you will let us know if we can contribute in any other way. We will certainly be glad to go over some of our work with members of the Economic Planning Staff, anticipating a flow of information and ideas in both directions. It does not appear that any one time is better than another, except as concerns the number of us on hand to receive you. During the period from the last week of July through the first week of September several persons, I among them, will be absent on missions and holidays. Perhaps late September would be best.

With all good wishes,

Sincerely yours,

Mr. Dudley Seers

Ministry of Overseas Development
London, S. W. 1.

Irving S. Friedman

The Horowitz Proposal
A Suggested Modification

1. The two basic premises underlying the Horowitz Proposal, as the Bank staff report points out, are: First, that a satisfactory rate of economic progress for the developing countries depends upon capital inflows in amounts much larger than have heretofore been available and on concessional terms; and second, that it is not politically realistic to expect development assistance on the scale and terms required to be made available through direct budgetary allocations.
2. To this end Governor Horowitz had proposed the establishment of an international interest equalization fund and a considerable expansion of IDA resources (\$3 billion over a five year period) through flotation of funds in the international capital markets backed with an international guarantee. IDA was to borrow money at the market rate of interest and lend it to developing countries at 1 per cent, the interest differential was to be met by an interest equalization fund. The Bank staff, however, sees many difficulties in the implementation of the proposal, not the least of which is the question whether advanced countries would be willing to allow access to their capital markets in the quantities envisaged in the proposal. This, of course, is a matter of political judgment on the part of the advanced countries. If, however, the advanced countries can be assumed to be prepared to obtain such an export of capital, it is suggested here that some of the other difficulties associated with the Horowitz Proposal (e.g., shyness of the market in investing into IDA bonds, or alternatively, danger to the Bank's credit standing if it were to borrow for the purposes of lending to a soft-aid agency such as IDA, the inherent difficulties in instituting yet another fund - to cover the interest differential - can be overcome by using the existing international financial machinery to implement the main elements of the Horowitz idea.

3. It is suggested that:-

(a) the increase in borrowing in the private capital markets should come through IBRD and used by IBRD to expand its present level of activities (and not re-lent to IDA for the purposes of expanding IDA activities). IBRD would continue to lend at the present rate of interest - at a rate little higher than at which it can borrow. For such an increase in IBRD activities, no new system of guarantees would be required since it already has a considerable margin of borrowing capacity in excess of its present level of borrowing resulting from the size of its uncalled 90% portion of member subscriptions to the Bank's capital in relation to its outstanding indebtedness, and its financial record including the accumulation of special reserves. It is proposed that the Bank should increase its borrowing by \$1 billion a year for the next ten years, over and above its present level of lending.

(b) Bank's lending policy for this 'supplemental' lending would continue to be the same as for its normal lending - for projects and for programs, if the Bank staff considers it suitable. No relaxation in the standards of project appraisal or the purposes for which loans are used is contemplated.

(c) The novelty of the Horowitz Proposal, of course, lay in mobilizing private capital for development loans on 'soft' rather than conventional terms. In order to decrease the service burden of Bank loans on developing countries it is suggested; (i) the average terms of Bank loans for this supplemental lending should be 30 years with 5 years' grace (as ~~was~~ suggested by Horowitz for the expanded IDA). The Bank has already made loans on these terms to certain countries. (ii) Countries should borrow from the existing IDA a sum equivalent to "four per cent" interest differential on these supplemental Bank loans. Conversely, IDA instead of lending for specific project as at present would use its present flow of resources for the purposes of lending to meet the "four per cent interest differential" on Bank loans. This would have the effect of making the incidence

of Bank loans 'soft' on developing countries, without ~~it~~ involving the Bank itself in 'soft-lending'. IDA loans would continue to be on present terms, only the specific direction of these loans would be changed.

4. The attached table shows that a flow of resources equivalent to \$321 million a year into the IDA for the next seventy years would support the interest differential of four per cent for thirty years in Bank loans of \$10 billion.

5. The main advantages of the present proposal are believed to be:-

(i) the difficulties associated with IDA borrowing on its own or Bank re-lending to IDA (mentioned in the Staff Report) would be avoided. The Bank standing in the capital markets is unlikely to be affected adversely since it would still continue to lend on its present terms and for specific projects or programs.

(ii) No new system of guarantees for Bank's operations would be required.

(iii) No new interest equalization fund would have to be established.

(iv) IDA would continue to lend for specific purposes, that is, to meet interest differential on Bank approved and Bank financed projects. It would continue to exercise its judgment on "country eligibility" for its funds.

(v) IBRD would be able to borrow funds at the prevailing rates of interest in the capital markets abroad even though these rates are higher than 5 - 5½%. If the Bank borrows at, say, 6% in Germany, it could lend at 6½% to developing countries. The actual interest on developing countries balance of payments would, however, be no more than 2½%.

6. It may be mentioned that in this proposal, as in Horowitz, amortization obligations resulting from this greatly expanded international lending, may create difficult balance of payments problems. This problem is inherent in assistance through loans and there can be no solution to it except in adjusting (the time of making the loan or later as repayments fall due) the repayment schedule of loans to the portion of foreign exchange surpluses generated by the projects financed and the productivity of investment in terms of foreign resources for the economy as a whole.

TABLE

The following table shows the stream of "interest differential" calculated at 4 per cent of the amount outstanding over the 30 years of a loan of \$1 billion. It is assumed that this loan would be amortized on the following pattern: a five year grace period and repayment thereafter at the rate of 2½ per cent per annum for the first 10 years and 5 per cent per annum for the remaining 15 years.

(In millions of U.S. dollars)

Year	Amount of Loan	Amortization	Principal Outstanding	Interest Differential (at 4%)
1	1,000	-	1,000	40
2		-	1,000	40
3		-	1,000	40
4		-	1,000	40
5		-	1,000	40
6		250	1,000	40
7		250	975	39
8		250	950	38
9		250	925	37
10		250	900	36
11		300	875	35
12		300	850	34
13		300	825	33
14		300	800	32
15		350	775	31
16		350	750	30
17		350	700	28
18		350	650	26
19		350	600	24
20		350	550	22
21		350	500	20
22		350	450	18
23		350	400	16
24		350	350	14
25		350	300	12
26		350	250	10
27		350	200	8
28		350	150	6
29		350	100	4
30		350	50	2

The present value of the stream of interest differential (column 5) discounted at, say, 5 per cent, is \$503 million. If loans of \$1 billion are made every year for the next 10 years, the discounted value of the interest differentials for all these loans would amount to about \$4,000 million. This amount represents the present value of \$312 million contributed yearly for the next 20 years.

This shows that if IDA received contributions of \$312 million yearly for 20 years, this can be used to meet interest differential of 4 per cent on 30 year loans of \$10 billion.

KARASZ
INTBAFRAD
PARIS

JULY 2, 1965

NLT

FRANCE

374 YOUR 342 GULHATI AND SUNDRUM ATTENDING DAC EXPERT
GROUP MEETING STOP AGREEABLE MEETING WITH GERMAN REPRESENTATIVES
EVENING EIGHTH AS SUGGESTED REGARDS

FRIEDMAN
INTBAFRAD

Irving S. Friedman
Office of the President

July 1, 1965

Dear Mr. Ellsworth,

Thank you very much for your letter and enclosure of June 28. I look forward to reading the statement.

May I thank you again for an enjoyable lunch.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

The Honorable
Robert F. Ellsworth
Joint Economic Committee
Congress of the United States
House of Representatives
Washington, D.C. 20515

July 1, 1965

Dear Ivar:

Thanks for your letter of June 21. This is just a short note to let you know that if it is convenient for you and Ingrid, I hope to be in Stockholm at the end of July. Present plans are to arrive Stockholm 7:50 pm from Paris on Saturday, July 24, and leave on Monday morning for home. The reason for the short visit is that I am leaving the following weekend for South America. Could you let me know whether this visit is convenient for you?

I will be attending the DAC Ministerial meeting in Paris July 22-24 and have requested reservations at the Bristol or Ritz. However, if you wish to reach me in Paris perhaps the Paris Office would be best.

Looking forward to seeing you and Ingrid again,

Sincerely,

Mr. Ivar Rooth
Lidingo 3
Stockholm
Sweden

Mr. Hulley

June 25, 1965

Irving S. Friedman

Letter from Ministry of Overseas Development

Please do a quick reply to this letter, with the assistance of Mr. Avramovic, the Economics Department and Treasurer's Department.

I would like to see something go out on Monday at the latest.

Attachment

June 30, 1965

Dear Ivar:

Thanks for your letter of June 21. This is just a short note to let you know that if it is convenient for you and Ingrid, I hope to be in Stockholm at the end of July. Present plans are to arrive Stockholm 7:50 pm from Paris on Saturday, July 24, and leave on the Monday for home.

I will be attending the DAC Ministerial meeting in Paris July 22-24 and have requested reservations at the Bristol or Ritz. However, if you wish to reach me in Paris perhaps the Paris Office would be best.

Looking forward to seeing you and Ingrid again,

Sincerely,

Mr. Ivar Rooth
Lidingo 3
Stockholm
Sweden

Mr. Kamarek

June 30, 1965

Irving S. Friedman

Annual Report

In connection with the Annual Report it might be sensible to have an informal sub-committee of you plus Drag, Kochav and Sarma. Kochav will of course be leaving soon. You may wish also to get some help from Owen on drafting.

June 29, 1965

Dear Walter:

I have just received your letter of June 24, and am looking forward to reading the enclosures.

It would be difficult to summarize where we are at the moment in our own study.

Perhaps we might see each other when I go to Paris next. My present plans are to be in Paris July 22, 23 and the morning of July 24. As you probably know I tried to get in touch with you the last time I was in Paris but you were out of the country, which I would guess is a rather usual condition for you. I do hope to see you soon and have the chance to chat about many things as in the past.

With warm regards,

Sincerely yours,

Irving S. Friedman

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

Mr. Kamarck

June 29, 1965

Irving S. Friedman

FAO

What do you think we ought to do about this? We are obviously way overdue in sending a reply to FAO and as far as I can see there was no acknowledgment of the letter in the first place.

Mr. Barend de Vries

June 22, 1965

Irving S. Friedman

URGENT

Please let me have immediately a statement of your justification for the increase in economists requested for the budget for the Economics Department.

Please do so before you leave, so that I have a chance to talk it over with you before you leave.

June 22, 1965

Excellency:

I refer to the "Plan for increasing investment in developing countries" which you asked Mr. Edgar Jones to give to me. I gather from the Belgian Embassy in Washington that you are interested in having our comments on the document.

We have read the Plan with interest. We are very much in sympathy with the Plan's objective of increasing the flow of private capital into the less developed countries. Much of the International Bank's activity is devoted to that end, and it is a matter to which we are directing our attention in a number of ways at present.

The approach of the Plan, which seeks to facilitate dividend transfers (and thereby encourage foreign investment) by offsetting the strain on the balance of payments which such dividend payments entail, is ingenious and provocative. The Plan contemplates that dividends paid out to foreign shareholders would take the form of marketable obligations of "an international financial organization." Since this organization would probably be the International Bank, we have given particular consideration to the implications of the Plan for the Bank. Let me note very briefly a few of the questions which I see. Please accept these as personal preliminary comments which it is hoped will be of some help to you.

For one thing, as we understand the Plan, the dividend/bonds to be issued by the Bank, once in the hands of a foreign enterprise's shareholders, would be freely saleable by them in world capital markets. Presumably these bonds would thus be competing with the normal market operations of the Bank, as well as those of other international institutions, such as the European Investment Bank and the Inter-American Development Bank, which draw a sizeable share of their investible resources from the market. Is it, therefore, realistic to envisage the scheme as providing a new source of finance for investment in development? A second question is whether the proposed requirement that funds raised through the sale of the dividend/bonds be lent within the country where the funds were borrowed would impose an undesirable constraint upon the Bank's flexibility in lending. A third point is that, since the dividend/bonds would carry a market rate of interest, the proceeds of their sale would presumably be lent to the less developed countries at a rate of interest not too different from the market rate. This would, of course, add to the debt servicing problems of those countries.

His Excellency
Ambassador P. A. Forthomme

- 2 -

June 22, 1965

I am particularly gratified that another "creditor" country is approaching the problem of the developing world with positive and constructive suggestions. If, when you have occasion to be in Washington, you would care to come to the Bank, I should be very happy to talk with you further about the Plan. Meantime, I thank you for giving us the opportunity to become familiar with the Plan.

Yours respectfully,

Irving S. Friedman
The Economic Adviser to the President

His Excellency
Ambassador P. A. Forthomme
Ministere des Affaires Etrangeres
et du Commerce Extérieur
2 rue Quatre Bras
Bruxelles 1
BELGIUM

ISF:prl

Files

June 22, 1965

Bimal Jalan

Minutes of Meeting on Supplier Credits - June 15, 1965

The draft proposals presented by Mr. Pereira Lira and Mr. Nespoulous Neuville were discussed.

Mr. Friedman said that it was important to bear in mind that any scheme for regulation of supplier credits to developing countries interfered with the freedom of action of two groups in the creditor countries --(i) the sovereign government. This is complicated by the fact that for different countries there is a different degree of governmental interest in this field. For example, any scheme which called for intervention by the U. S. Government in any otherwise unregulated field - principally banking - would be very hard to accept by the U.S. (ii) commercial private interests: We would not want to eliminate this important source of trade and development financing. The question, therefore, was - could one formulate a set of collective rules which would be acceptable to these groups, and yet serve its purpose?

Mr. Pereira Lira's scheme involved putting up a ceiling to the amount of supplier credits that a developing country could contract over a period of five years. This would be done through negotiations between the debtor and creditor countries, and once agreed upon, it would be adhered to by both debtor and creditor countries. The advantage for the debtor country in this arrangement would be in being assured of a regular flow of supplier credits during a five-year period, and for creditors in being able to successfully regulate the level of indebtedness of any one country to a previously agreed level.

After some discussion of the various difficulties involved in adopting either Mr. Lira's or Mr. Nespoulous-Neuville's proposals, Mr. Friedman summarized the consensus that emerged from this discussion:-

(1) First, it should be recognized that there is a genuine need for short and medium term credits (say, one to 10 year credits), and that this problem of "too much supplier credits" cannot be solved by a total elimination of these credits.

(2) It should also be recognized that under certain circumstances countries can get over-indebted, and that there should be some machinery to regulate the flow of supplier credits to the developing countries. If it is agreed that a country should be assured of a particular level of supplier credits per year, the creditor governments or some other agency should make up for the shortfall. This would be done only if it was agreed that this shortfall in the flow of supplier credits was not due to unsatisfactory policies of the debtor country itself.

(3) Within this framework the day-to-day operation of the supplier credits agreement should be conducted through a Committee of Experts. This Committee would be an operating committee with the authority to make decisions. Also, it should be emphasized that this committee would operate in a manner which does not interfere with the normal banking and commercial practices of the participating countries.

This is only a preliminary proposal, and the outlines of this proposal would have to be sketched out in much greater detail before it could be presented to UNCTAD or countries for discussion. The question at the moment was to decide whether a proposal along the above general lines was practicable.

cc: Messrs. Friedman
Nespoulous-Neuville
Pereira Lira

Mr. George D. Woods

June 21, 1965

Irving S. Friedman

IDA Absorptive Capacity: 1966-1970

1. In connection with the IDA replenishment exercise, the question has often been raised whether there is not a practical limitation on the project side to the amount of money that could be lent by the IDA to developing countries. I, therefore, sought the judgment of Area Departments in order to obtain estimates regarding the value of project possibilities which would meet Bank/IDA standards of appraisal, over the next five years (1966-70). A discussion on the Area Departments' answers to this request was held at the Economic Committee, and on the basis of this, my memorandum of April 22, 1965 to you was prepared. Subsequent discussions with the Area Departments have led to further revisions in these estimates; the attached table reflects these changes. It may be noted that projects identified for the Bank (including those for the year 1965/66, per Mr. Knapp's memo of June 16, 1965) are excluded from the estimates of IDA absorptive capacity.
2. The estimates for various countries differ very appreciably in composition. Some are derived from actual feasibility studies of projects; at the opposite extreme are estimates based only on judgments regarding absorptive capacity in particular sectors of the various countries and their ability to produce projects during this period which would meet Bank/IDA standards. The data are intended to give a rough indication of the amounts which IDA could undertake in each country if sufficient funds were available, and do not, in any sense, represent a forecast of possible IDA operations in each country within the framework of its present resources. No major change in the present standards of project performance or in the sectors of investment was introduced in the data.
3. The first column of the attached table shows the Area Departments' estimates of total local and foreign exchange costs of project possibilities meeting the usual Bank/IDA performance standards. The Africa, Far East and Western Hemisphere Departments' estimates represent the cost of all project possibilities meeting Bank/IDA standards to which some external financing from the World Bank Group or any other source of finance could be attached. The other Area Departments have estimated the costs of only those projects for which they see possible IDA financing.
4. The second column indicates the Area Departments' judgment regarding the probable level of IDA financing in countries which are now considered eligible for IDA assistance. Eligibility for IDA assistance was based on grounds of lack of creditworthiness and low per capita income, but without reference to each country's performance, on the assumption that performance will be sufficiently satisfactory in all countries during the course of the next five years. In many cases, the total of "possible" IDA commitments in individual countries was obtained by dividing by two the total cost of those projects to which IDA financing should be attached. In other cases, however, the IDA share in the total cost of individual project possibilities has been taken to be more than 50 per cent for those countries which have a severe lack of domestic savings, in order to include some local currency financing, or less than 50 per cent for those countries which still possess some capacity to incur indebtedness at conventional terms.

June 21, 1965

5. The table covers only the presently eligible IDA countries. It would have been interesting to estimate what the "possible" level of IDA commitments would look like if some of the present criteria ("per capita income" and/or "lack of creditworthiness") were relaxed. Relaxation of creditworthiness criterion would have increased the level of IDA financing suitable for some countries (e.g., Peru, Morocco). Relaxation of the per capita income criterion would have resulted in making some countries not included in the table (e.g., Brazil, Colombia, Malaysia) eligible for some IDA assistance. Quantifying the "possible" level of IDA commitments on relaxed criteria is, however, difficult because it involves policy judgments regarding the desirable degree of "shifts" from the Bank and other sources of finance to IDA. In many of the countries which would become eligible for IDA assistance on relaxed criteria, the present difficulties are due to short or medium-term liquidity crises, which reflect heavy debt service payments during the next few years. Their problems could be met by debt rescheduling with long periods of grace and repayment, and now lending on IDA terms, but in many Western Hemisphere countries, which are now purely Bank countries, an alternative solution to providing IDA credits in order to ease their payments position would be to extend the grace periods on Bank loans.

6. The table also excludes certain countries in which political difficulties are such as to make it highly unlikely that they would become eligible for IDA assistance in the next five years (e.g., Congo (Leopoldville), Indonesia, Burma, Viet-Nam, Laos). If some of these do become eligible, the totals for the possible level of IDA assistance would be considerably higher.

7. The figures in the table show that the total project possibilities in IDA countries in the Western Hemisphere, Far East and Africa are \$6.3 billion; of this IDA could undertake \$1.3 billion, leaving about \$5.0 billion to be financed by non-IDA sources of finance. For South Asia, Middle East and Europe, the "possible" total of IDA commitments is about \$5.6 billion. For these countries it was not possible to make estimates of total project possibilities (both IDA and non-IDA), and the above figure indicates the amount IDA could commit in these countries on sound project basis over and above the existing total of non-IDA sources of finance.

8. Thus, the figure for possible level of IDA commitments in IDA countries over the next five years (if there was no limitation on availability of funds) is \$6.9 billion, or nearly \$1.4 billion per annum. This does not involve any assumption regarding IDA taking over part of the present project financing by other sources (including the Bank). If IDA were the only source of non-conventional finance, the figure for "possible" level of IDA commitments would be even higher.

9. In conclusion, I think that this exercise, based on the best judgment of our Area Departments, provides us with a positive answer to the question whether IDA would have enough projects to absorb even a tripling or quadrupling of IDA resources.

Attachment

cc: The President's Council

**Absorptive Capacity for IDA Assistance
as estimated by the Area Departments:
1966-1970**

(In millions of U.S. dollars)

	<u>Total cost of project possibilities (a) (1)</u>	<u>Absorptive capacity for IDA assistance (2)</u>
<u>AFRICA 1/</u>	<u>3,510</u>	<u>665</u>
Algeria*	610	20
Morocco	360	80
Tunisia*	100	55
Senegal	35	12
Mauritania	55	13
Guinea*	70	30
Mali	35	15
Dahomey & Togo	60	35
Sierra Leone	80	16
Niger	30	10
Upper Volta	55	18
Liberia	185	20
East Africa	510	100
Malawi	75	25
Sudan	310	50
Ethiopia	205	35
Rhodesia*	180	8
Somalia	40	20
Burundi	20	8
Cameroon	100	30
C.A.R.	25	6
Chad	30	8
Congo (Brazzaville)	115	8
Malagasy Republic	115	35
Rwanda	20	8
<u>EUROPE AND MIDDLE EAST 2/</u>	<u>1,180</u>	<u>605</u>
Basutoland	15	10
Bechuanaland	15	10
British Guiana*	15	10
Fiji	15	10
Jordan	150	75
Mauritius	15	10
Surinam	20	10
Swaziland	20	10
Syria	100	50
Turkey	400	200
U.A.R.*	400	200
West Indies	15	10

	(1)	(2)
<u>FAR EAST</u>	<u>1,900</u>	<u>434</u>
Ceylon	165	82
Korea	550	275
Philippines	525	35
Thailand	660	42
<u>SOUTH ASIA 3/</u>	<u>2,790</u>	<u>4,276</u>
India	8,000	4,000
Pakistan	1,750	950
Afghanistan	25	18
Nepal	15	8
<u>WESTERN HEMISPHERE</u>	<u>821</u>	<u>230</u>
Bolivia	40	20
Ecuador	123	30
Haiti	10	5
Honduras	31	8
Paraguay	40	10
Peru	647	162
<u>GRAND TOTAL</u>		<u>6,210</u>

(a) The Africa, Far East and Western Hemisphere Departments' estimates in this column represent the cost of all project possibilities, other Area Departments' estimates indicate the costs of only those projects for which they see possible IDA financing.

* Countries which are presently ineligible on grounds of either unsatisfactory performance -- including unsettled claims -- or political uncertainties.

1/ While the total cost of identifiable projects in Africa (column 1) presupposes a very considerable stepping up on technical assistance activities, estimates of IDA absorptive capacity in column 2 are fairly conservative since they are based on present availability of technical assistance.

2/ The estimates of IDA absorptive capacity in British dependencies are subject to their joining IDA following independence.

3/ The South Asia Department feels that in both Pakistan and India there is no practical project limitation to Bank/IDA lending to those countries. The figures of column 2 show the amount of lending which IDA could undertake in these countries without encountering difficulties in finding suitable projects or programs for financing.

Mr. Kochav

June 18, 1965

Irving S. Friedman

Annual Report

I would like you to report at this afternoon's meeting in rather specific terms, to what extent our Annual Report is duplicating material found in the Annual Report of the Fund, which is now being reviewed by its Executive Board.

In fact, if possible I would appreciate a memorandum from you on this.

Messrs. Kamarck, Sarma, Kochav, Lira, Sundrum
de Vries, Jalan.

June 16, 1965

Irving S. Friedman

I would like to have a meeting at 5.00 p.m. today with
all those who have managed to read the attached. I would
appreciate if you could make an effort to read this memorandum.

ISF:prl

Mr. A. Kamarek

June 16, 1965

Irving S. Friedman

Annual Report

Please let me have your comments on this before you leave.

Attachment.

ISF:prl

Messrs. Sarma, Lira, Sundrum, de Vries, Jalan.

June 16, 1965

Irving S. Friedman

Annual Report

I would appreciate if you would send your comments on the attached to Mr. Kochav or myself by Friday morning, since I am asking Mr. Kochav to meet with me on this report at 12.00 noon Friday to prepare a version to be circulated to the Economic Committee and others.

Anyone receiving this may attend this meeting if they so wish.

cc: Messrs. Kamarek and Kochav.

Attachment.

DECLASSIFIED

AUG 16 2023

June 17, 1965

WBG ARCHIVES

Personal

Dear Bill:

I was very glad to receive a copy of your Columbia University speech. I am sure you have been inundated with comments thereon - I hope you will forgive me for adding one or two of my own.

I would like to say that I agree both with much of what is in the address and with its basic theme. It ought to be old stuff, but it seems to need constant reminding that the depth and duration of economic crises are largely the result of how periods of prosperity are managed. It also seems to be an obvious truism that needs repetition that the need to follow sensible economic policies applies to one's own country as well as to others. As an American there is some comfort in the thought that this feeling of exceptionalism is a universal feeling as evident, for example, by the many countries that rant against American protectionism while they invent the most ingenious and effective instruments for perpetuating protectionism themselves.

I was particularly pleased with your defense of the present international monetary system and calm but clear criticism of those who find it so easy to suggest its change in a manner that I believe would destroy many of the advantages of the present system with little hope of replacing it with anything as good. It is easy to conceive of an international monetary system which would involve many less difficult decisions in the field of external monetary relations by the various managers of the system, but I for one have not been able to see how this could be accomplished without enhancing the problems of those managing the internal monetary conditions as well as other facets of economic life.

I found myself cheering when you emphasized the need to "avoid any impairment of the value and the status of the dollar". There are a few points where I find myself not in complete agreement, but they don't affect the main thread of argument.

Some day, if and when your crowded schedule permits, I would be happy to have a chance to chat with you about some of the things we are doing in the Bank and some personal thoughts on the world monetary system and outlook.

With warm regards,

Sincerely,

Irving S. Friedman

Mr. Wm. McChesney Martin, Jr.
Chairman,
Board of Governors of the
Federal Reserve System
WASHINGTON, D.C.

ISF:pr1

Copy of telegram

Mr. George D. Woods
825 Fifth Avenue
New York City

June 17, 1965

Congratulations on well deserved recognition and honor stop
As a Columbia man I must say Harvard is showing unusually good
judgment stop Warm regards

Irving

(Mr. Woods has received degrees from:

- 1963 - Alleghany College
- University of Notre Dame

- 1964 - Lafayette
- Bowden

- 1965 - Harvard

June 15, 1965

Dear Mr. Scafuro,

Thank you for your letter of June 11 which has evidently crossed mine of the same date.

In preparing our study we will of course keep in mind the thoughts which you have expressed on this subject, and will be happy to send you a copy of the study when it is completed.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. Francis X. Scafuro
Vice President - Business Relations
Bank of America
41 Broad Street
New York 15, N.Y.

C
O
P
Y

Mr. Federico Consolo

June 15, 1965

A. M. Kamarck

UNCTAD Committee Meetings, 1965

The following are our plans for representation at the UNCTAD Committee Meetings that are of interest to the Economics Department:

Ad Hoc Working Party on International Organization of Commodity Trade (July 6-16); and Committee on Commodities, 1st Session (July 19-August 6): For these two Committees, Mr. Macone will represent the Bank. He will probably be in Geneva from July 28 to August 6.

Committee on Manufactures, 1st Session (August 10-19): Mr. Walstedt will attend.

Regional Development Fund Expert Committee (Sept. 20-Oct. 1): We have no one to send to this and we would hope that the Paris office would keep in touch with this.

Committee on Manufactures (Oct. 25-Nov. 5): We do not know yet whether it will be worth while to send someone to this second session.

Expert Group on International Monetary Issues (Oct.-Nov.): Representation here we also reserve.

Committee on Invisibles (Nov. 8-24): We will have representation but will name the person later.

Interim Coordinating Committee for International Commodity Arrangements (Nov. 16-22): We do not plan to send any representation.

Committee on Shipping (Nov. 25-Dec. 10): We do not plan to send any representative.

Of the Commodity Meetings, we plan to send Miss White to the U.N. Cocoa Conference in June, Mr. Ali to the U.N. Sugar Conference in September, and we may send someone to the Copper Meeting in December.

The others, we do not plan to have any representation.

cc: Mr. Friedman
Mr. Karasz

AMK/vhw

June 15, 1965

Dear Sir:

Mr. Woods has requested me to send you the attached copy of the Legislative History of IDA in the U.S. Congress for your information.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. Livingston T. Merchant
4853 Loughboro Road
Washington D.C. 20016

June 15, 1965

Mr. J. Philip Hayes
Head of the Economic Development Division
Organisation for Economic Cooperation and
Development
2, Rue Andre-Pascal
Paris 16e, France

Dear Mr. Hayes:

Many thanks for your letter of June 1, 1965, concerning
the work of the DAC Expert Group on Analytical Techniques.

I understand that Mr. de Vries has talked to you on the
telephone, giving you some of our reactions and explaining our
interest in improving the use of analytical techniques in the Bank's
economic work. Mr. Kamarek's attendance at the DAC meetings next
week will provide a further opportunity of discussing with you our
interest and approach. Messrs. Gulhati and Sundrum of our staff
will be available to attend the July 8-9 meeting of the Expert Group.

Finally, I would like to reiterate the World Bank's desire
to collaborate actively with DAC on the work on analytical techniques.

With best wishes.

Yours sincerely,

(signed) Irving S. Friedman

Irving S. Friedman
The Economic Advisor to the President

cc: Messrs. Kamarek
de Vries
Sundrum

Irving S. Friedman

June 14, 1965

Bimal Jalan

Minutes of the meeting on "Instructions to Mr. Karasz for June 15 meeting"

Everts Group of DAC is meeting on June 15, 1965 to discuss the various issues arising out of documents prepared by the Secretariat and Expert Groups on the subject of "Terms of Aid" and "Indebtedness". Messrs. Friedman, Demuth, Kamarek, Pereira Lira and Nespoulos-Neuville met to discuss the instructions which would indicate the position Mr. Karasz should take on the major items of interest to the Bank in the DAC meeting.

Mr. Kamarek said that there were two papers - the U. S. paper on "two-step" lending and the British proposal on "Project and non-project aid" - on which the Bank did not need to take a position. There was a third paper on "Policy Recommendations", arguing for a general softening of the terms of aid and mitigating the disadvantages of aid-tying, with which the Bank was in general agreement. But since the Bank has not been asked to take a position on it, it was better not to send any specific instructions to Mr. Karasz.

The DAC paper on "Indebtedness" had raised certain factual questions relating to the debt-information provided by the Bank. The Bank is drafting a separate reply to these questions, and it was decided that Mr. Karasz should be advised of this.

There are, however, two important issues on which the O.E.C.D. Secretariat and Everts Group has specifically asked for Bank's views. The first one is the so-called "early warning system". Could we provide a warning about the emergence of a critical debt situation in a particular country a year or two in advance? Mr. Kamarek said that as far as the Bank contribution to this was concerned, in general, our economic reports did try to call attention to storm clouds on the horizon. They may not and, in fact, in many cases in the past, did not warn of an imminent crisis about to break, because if the crisis was due to bad performance by the debtors country, the Bank was likely to have warned the country of the difficulties it was running into and, if these warnings were disregarded, it would have suspended new lending operations in the country considerably ahead of the time the storm actually broke. He felt that the amount of information that is available to the governments in the form of the economic reports of the Bank, the consultation reports of the fund, the various financial and economic press reports, should be sufficient in most cases to provide some warning as to which developing countries are heading for trouble. The main task was to improve the coverage and technique of debt information coming into the Bank, and here the new statistical system being worked out by the coming into the Bank should close the bulk of the gaps that exist. The Bank, in co-operation with the Fund, is also calling a meeting of experts from both developed and developing countries to discuss this informational gap and what could be done about it. In order to improve the technique of data collecting in developing countries, the Bank is further considering setting up a training program for the

officials of the LDC's. Mr. Demuth added that if the Bank program of setting up consultative groups for a number of developing countries succeeded, the present system of reporting indebtedness position of different countries would become much more systematic and regular. Mr. Friedman said that Mr. Karass should also mention that it was the intention of the Bank to have regular periodic consultations with the member countries, irrespective of whether a loan was being considered or not at a particular time, and this should further increase the regularity with which information on indebtedness could be made available. The main informational gap that now existed was with respect to the short-term credit (mostly three-month credits), and it was difficult to devise any effective early warning system which would forecast the accumulation of such a debt on the part of a particular country.

The second question on which specific instructions were necessary was the one discussed in the working party paper on "Rescheduling of debts" which proposed that indebtedness problems of a short-term nature should be handled through a "club", which the "long-haul" cases should be handled through a consultative group or a consortium. Mr. Friedman said that the proposal was perhaps sensible. He was, however, worried about the role which was being envisaged for the Bank vis-a-vis the club in this proposal. Is the Bank willing to go beyond being an observer and participate in these debt-rescheduling operations which are likely to involve considerable pressure on the developing countries to pursue what the creditor countries regard a "sensible" and "disciplined" policy? Mr. Demuth said that he had particular reservations on certain parts of the O.E.C.D. paper, e.g., the suggestion that different types of debt ("private" and "public") should be treated differently in debt negotiations or that regional loan agencies like the IADB should be considered "less preferred" creditors than the international organizations.

It was decided that Mr. Karass should say to the Everts Group that the Bank was willing to co-operate with "clubs", should these be established, but that it would not like to be involved in setting these up or advocating this particular idea.

cc: Mr. Richard Demuth
Mr. Andrew Kamarek
Mr. Paulo Pereira Lira
Mr. Andre Nespoulous-Neuville

Personal

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June 14, 1965

Dear Bill,

I was very glad to get a copy of your Columbia University speech, which has seemingly not been ignored by the Press!

I would like to say that I agree with much that is in it and particularly disagree with the criticisms of it I have read in the Press.

Some day, if and when your crowded schedule permits, I would be very happy to have a chance to chat with you about some of the things we are doing in the Bank and some personal thoughts on the world monetary system and outlook.

With warm regards,

Sincerely,

Irving S. Friedman

Mr. Wm. McChesney Martin, Jr.
Chairman
Board of Governors of the
Federal Reserve System
Washington, D.C.

Mr. Nespoulos Neville

June 11, 1965

Irving S. Friedman

European discussions

I have spoken to Mr. Alter who welcomed the suggestion of your joining the group to Europe to discuss Brazil. You might wish to discuss this with Mr. Schmidt when he returns or perhaps you could discuss it with Mr. Sirken if you plan to be away when Mr. Schmidt returns.

June 11, 1965

Dear Garth:

Thanks for sending me a copy of your article. I think you grasped very well the spirit in which I tried to present the material. Incidentally, do you have a particular detailed study in mind in your penultimate paragraph. Of course there are actually a number of studies going on.

With warm regards,

Sincerely,

Irving S. Friedman

Mr. Garth Hopkins
The Financial Times of Canada
1061 St. Alexander Street
Montreal, P.Q.
Canada

Not sent

June 11, 1965

Dear

You will recall that the other day at lunch we talked for a moment about which Latin American countries had received IDA aid. In the past these have been:

Bolivia	El Salvador
Chile	Haiti
Colombia	Honduras
Costa Rica	Nicaragua
Ecuador	Paraguay

However, as a result of the criteria used to ration IDA funds Latin America currently has four IDA eligible countries. During the current fiscal year (July 1, 1964/ June 30, 1965) the following Latin American countries received IDA aid.

Bolivia (\$15 million)
Honduras (\$3½ million)

I am looking forward to your having lunch with me here at the Bank on Thursday and resuming our conversation.

Sincerely yours,

Irving S. Friedman

Mr. Anthony Solomon
Assistant Secretary for Economic Affairs
Department of State
Washington 25, D.C.

Mr. Kamarck

June 10, 1965

Irving S. Friedman

OECD Letter - Meeting of Expert Group in July

I would suggest that Mr. Gulhati and Mr. Sundrum attend this meeting to be held July 8 and 9. I think it would be unreasonable to expect that Drag would be able to go to Paris so soon after his return from Nigeria.

I am afraid I won't have time to give comments but I think that Messrs. Gulhati and Sundrum, and probably also Mr. de Vries in view of the latter's expressed interest in the matter, should give comments.

cc: Mr. Gulhati
Mr. de Vries
Mr. Sundrum

Mr. Demuth

June 10, 1965

Irving S. Friedman

Letter to Mr. Karasz

I thought it wise to send something like this to Arthur. In the meantime I am having various people try to absorb the material and draft possible replies for positions for us. I must say it all seems "Alice in Wonderland" stuff to me. I think the people in Europe who are following the stuff must be awfully unimportant to find the time to keep up with it, or is it simply being largely ignored?

Attachment

June 10, 1965

Dear Arthur:

I thought it might be useful to let you know that we are digesting the recent flood of material and will be in touch with you again before June 15, if necessary by telephone.

I must say that I find it impossible to imagine how all this can be handled at the next meeting and that governments can absorb all this material in time to give serious reactions - but I presume that you will let us know of any changes in scheduling or the agenda.

With warm regards,

Sincerely,

Irving S. Friedman

Mr. Arthur Karasz
European Office
IBRD
4 Avenue d'Iena
Paris 16^e
France

cc: Mr. Demuth

Mr. Mervyn L. Weiner

June 10, 1965

Irving S. Friedman

Country Economic Reports

Thanks for your suggestion on country economic reports. I do plan to have a meeting on this as soon as our work schedule permits.

cc: Mr. Kanarok
Mr. de Vries

Mr. Gulhati

June 10, 1965

Irving S. Friedman

OECD letter - Meeting of Expert Group in July

I would suggest that you and Mr. Sundrum attend this meeting to be held July 8 and 9. I think it would be unreasonable to expect that Drag would be able to go to Paris so soon after his return from Nigeria.

I am afraid I won't have time to give comments but I think you and Mr. Sundrum and probably also Mr. de Vries in view of the latter's expressed interest in the matter should give comments.

cc: Mr. Kamarck
Mr. de Vries
Mr. Sundrum

Mr. Kamarck

June 10, 1965

Irving S. Friedman

Correspondence from Minister of Finance, Thailand

I think you will find the attached material of interest and importance. May I suggest that at some point you speak to Mr. Goodman and Mr. Cargill about their May 25 letter. I think it is the sort of letter which you or Bob should have seen before it went out.

Attachment

Mr. Kamarck

June 10, 1965

Irving S. Friedman

Memorandum from Mr. Aldewereld - Studies by the Economic Department

This is something else we have to talk about. Mr. Aldewereld has mentioned it to me orally but I will not reply to him until I have heard from you.

Attachment (Mr. Aldewereld's memo)

Mr. Kamarck

June 10, 1965

Irving S. Friedman

UNCTAD Meetings

We have a number of requests outstanding from Consolo to tell him what meetings we will attend.

Mr. Dell, of Prebisch's group, telephoned to say that he is coming this Monday to talk to people in Washington about the economic aspects of integration problems. He would like to spend some time in the Bank and I think it would be well if we could spend some time with him.

Could you set up a program starting at 3:45, Monday, June 14. Mr. Dell will be setting aside the time from then until about 5:45 in the Bank.

Attachment (UNCTAD meetings)

June 9, 1965

Dear Mr. Segawa:

I would like to apologise again for my failure to meet with you as arranged. It was of course due to an emergency situation.

I would also like to say that I had looked forward very much to the opportunity of exchanging views with you, since there are so many things in which we have a common interest.

I do hope that I will have the opportunity to do so again in Tokyo or in Washington.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. Minoru Segawa
President
Nomura Securities Co. Ltd.
1-1 Nihonbashidori, Chuo-Ku
Tokyo, Japan

cc: Mr. Kondo (for information)

Mr. Kamarck

June 10, 1965

Irving S. Friedman

GATT

Apropos your memorandum of June 2 reporting on your discussions with the GATT people, it would be fascinating to have for one country, or a group of countries if possible, the list of missions which international organizations have sent to the GATT during the last year on various economic subjects. Is there any place where this is known? Perhaps Dick might know.

Messrs. Avramovic, Kamarck, Kochav, Nespoulous-
Neuville, Pereira Lira, Jalan
Irving S. Friedman

June 10, 1965

Assignments

Please read the attached memorandum and follow its instructions.
I regret to have to say that they are not being followed so far.

I would also like to have immediately a list of the assignments
which have been given to you.

cc: Mr. Gulhati
Mr. Hablutzel
Mr. Halley
Mr. Schick
Mr. Scioli
Mr. Thalwitz

June 8, 1965

My dear El Emary,

This is just a note to inquire about your health. I was of course sorry to learn about your illness interfering with your trip, and do hope that you are making a rapid recovery.

You will recall the chat we had about all this travelling. As for myself I find travelling very tiring and hope to be able to keep it down to the minimum necessary to do the job.

If there is any way I can be of help please call on me.

Sincerely,

Irving S. Friedman

Mr. Abdel El Emary
32 Lumbaba Street
Alexandria
United Arab Republic

June 8, 1965

Dear Geoffrey:

I am sending on the copy of my letter to John Miller as promised. I am sure that you will keep in mind comments which I have made to you on this matter. I will be sending on the other stuff as soon as it is ready either directly to you or with Andy.

With best wishes for an interesting trip.

Yours,

Irving S. Friedman

Mr. Geoffrey Wilson

June 7, 1965

Dear Johnnie:

I hasten to give my first reaction to your memorandum of June 1, because it raises certain important points. Therefore, please take this as a first reaction. If I have further thoughts on this, I will get in touch with you.

I think it is very important to recognize that we have not approached the problem from the viewpoint or methodology of those who accept, as you call it, "the gap theory". We did not start with global assumptions of what the growth rate should be nor did we make arbitrary hypotheses regarding key factors such as marginal savings rates or input and output ratios. We are doing nothing more than what we do all the time in trying to estimate what a particular country's need for foreign exchange is likely to be in a given period, on the basis of our best judgments.

The Bank study of capital requirements is not intended to be a forecast of what in fact will be the flow of foreign aid; rather, it is an attempt to measure the "need" for external assistance. In our preliminary work so far, we have tried to use this approach to get a global estimate. Such an estimate provides the framework for considering what would be the reasonable order of magnitude for IDA replenishment, though this replenishment figure cannot be determined only on the basis of the general analysis of total needs.

As for the suggestion that we decide firmly on a figure which we should ask for, you probably know that Mr. Woods has firmly decided that we are not to suggest any figure whatever, or even rough magnitudes, for the time being, and are not soliciting figures from others. We are trying to focus attention on the basic problems facing both the developed and the developing countries in this field, such as the rising indebtedness, rather than get involved in a number's game at this time.

I would like to emphasize also that we are not thinking of a loosening or a relaxation of IDA criteria in the sense of insistence on good performance. The question as to whether funds should be given to countries above a certain per capita income is, of course, not related to the issue of IDA's performance standards. The per capita income ceiling is only a rationing device. Incidentally, I would completely accept the point that concessional terms can be given bilaterally as well as through IDA and that these concessional terms do not necessarily mean terms as soft as IDA terms. However, I do believe that experience gives rather high marks to aid extended through IDA/IDA channels as compared with bilateral channels.

On some of the other points, my general comment is that the IDA Replenishment paper was never intended for circulation, but as a basis for internal discussion. As you probably know, we are now preparing both a chapter for the Annual Report and a paper that could be given to governments. I think you will find very little in this paper to differ with.

Please be assured that all of your comments will be given the most careful consideration and are most welcome. I do hope that when the draft papers to which I referred above are issued, we will again have the benefit of your comments.

With warm regards,

Yours sincerely,

Irving S. Friedman

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

ISFriedman/RSundrum/RGulhati/da
6/7/65

cc: Mr. Pereira Lira
Mr. Kochov
Mr. Sarma
Mr. Sundrum

Mr. Kemerck
Mr. de Vries
Mr. Gulhati

Mr. de Vries

June 4, 1965

Irving S. Friedman

Letter from OECD

In view of our conversations I would appreciate your preparing a reply on this in consultation with Mr. Gulhati and Mr. Sundrum.

Attachment

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WASG APPROVED

June 4, 1965

Dear Mr. Abbai:

Thank you for your letter of June 1.

I will be pleased to see you when you visit Washington on June 10, and accordingly have set an appointment time for 3:30. If this is inconvenient please call my office, (DU 1-3665), and I will arrange a mutually convenient time.

Sincerely yours,

Irving S. Friedman

Mr. Belai Abbai
Peabody Terrace W.C.22
900 Memorial Drive
Cambridge
Massachusetts

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June 4, 1965

PERSONAL

Dear Thorhallur:

I gather that we came very close to seeing each other in Basle, both in time and in distance. It would have indeed been most enjoyable to have had the chance to see each other. What are the chances of your being in Washington? I expect to be in Paris July 22 and 23, and in Stockholm on the 24th and 25. Is there any chance of our paths crossing at that time? I tried to get in touch with Wilfried but found as usual he was out of the country. Did he ever get to the University to give the lecture as we had hoped?

There is a great deal and yet very little to report from here. On the personal side you will be interested to know that Ken has now decided to go to Earlham. Reid was particularly enthusiastic about Earlham, it seems that when he graduated from Friends it was one of the two schools that he wished to go to. Johnny will be going off to Boarding School. Did we speak to you about the Sandy Springs Friends School, which is about 30 miles from Washington. As planned both of the boys will be going to Quaker schools and we expect our house to be filled with "thees" and "thous" in the future. We do not look forward to the house being devoid of all offspring starting in September, but do hope that true friends like yourself will be staying with us from time to time. Has Sverrir made up his mind what he is doing next? Is he thinking of starting a new record for individual herring catch?

I believe it is fair to say that the work in the Bank has been going quite well. We have begun to achieve some of the changes we talked about. However, I am still not at all convinced that this is the life for me. However successful or useful it may be in substance it is too early to say and I am enjoying my working relations with Woods, so I don't feel under any particular pressure to come to a quick decision. I find my Fund colleagues these days very sensitive about the Fund, perhaps it is just when they are speaking to me. My guess is that they think that I regard the Bank as a superior institution, it puts them on the defensive - it's all kind of silly.

I do hope to find some good reason to visit Iceland again. Everyone is in unanimous agreement that that was the highlight of our European trip last year. Edna and all else join in sending their love.

With warm regards to everyone,

Yours,

Messrs. Demuth, Kamarek, Chadenet.

June 4, 1965

Irving S. Friedman

I would like to draw your attention to the attached letters I received from Mr. Tainsh of Stockholm together with some material he has sent to me. He is a friend of Mr. Rooth's, who recommends him most highly.

I have sent him a friendly non-committal reply. If you have anything you would like me to pass on to him I would be glad to do so.

Attachment

ISF:prl

June 4, 1965

Dear Mr. Tainsh:

Thank you for your letters of May 18 and 19, 1965, and enclosures which are most interesting. I have brought them to the attention of our Agricultural Division and other Bank technicians. I was glad to have your suggestion that you would like to join the Bank teams making pre-investment surveys, and will keep this in mind.

I do hope that we will have a chance to visit with each other either in Stockholm or in Washington.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. A. Ramsay Tainsh
Ostermalmsgatan 61
Stockholm
Sweden

Mr.A. Kamarck

June 4, 1965

Irving S. Friedman

UNCTAD - Committee Meetings 1965

Apropos Consolo's memorandum of May 26 are you proposing

to send anyone to the Ad Hoc Working Party on Commodity Trade?

ISF:pr1

Mr. A. Kamarck

June 4, 1965

Irving S. Friedman

UNCTAD Secretariat

You will be interested in the attached. Incidentally
do you know who Mr. Howard Bell is?

ISF:prl

Charles G.Goor, via Mr. B. de Vries

June 4, 1965

Irving S. Friedman

A Proposal for Establishing an Expanded Reporting
System on External Lending

I find myself in agreement with your suggested proposal except for para. 16. I don't quite see the division of labor between the IMF and IBRD either as to the work or why it is so divided. I would appreciate getting your comments on this.

You may also be interested in the attached note of Mr. Nespoulous Neuville on this matter. I would think that we had gone too far to re-open the matter, but perhaps you might have a chat on this with Mr. Nespoulous Neuville if you have not already done so.

ISF:prl



Record Removal Notice

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Correspondents / Participants To: Horst Eschenberg From: Irving S. Friedman				
Subject / Title Performance Report - Mr. Werner Schick				
Exception(s) Personal Information				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
		<table border="1"><tr><td>Withdrawn by Bertha F. Wilson</td><td>Date August 16, 2023</td></tr></table>	Withdrawn by Bertha F. Wilson	Date August 16, 2023
Withdrawn by Bertha F. Wilson	Date August 16, 2023			

Mr. A. Kamarck

June 4, 1965

Irving S. Friedman

Stuart Lerner

Mr. Gordon Williams has brought this name to my attention.
His paper doesn't seem particularly impressive, but perhaps it
might be worthwhile trying to find out more about him.

Attachment:

ISF:prl

Mr. A. Kamarck

June 4, 1965

Irving S. Friedman

UNCTAD Meetings

I would appreciate it if you and Mr. Sarma could make a recommendation on attendance. Please note there are two attachments.

ISF:prl

Mr. A. Kamarck

June 4, 1965

Irving S. Friedman

U. N. Conferences 1965

I would like to know whether we attended the Meetings of either the Economic Commission for Europe, or the Economic Commission for Latin America. Referring, of course, to anyone in the Bank and not only someone from the Economics Department.

ISF:pr1

Mr. A. Kamarck

June 4, 1965

Irving S. Friedman

Capital Requirements Study and IDA Replenishment Paper

Apropos your memorandum of May 20, I think that you, Gulhati, and myself, ought to talk about it since I must say I don't find myself in agreement with the comments.

ISF:prl

Mr. A. Kamarck

June 4, 1965

Irving S. Friedman

Cooperation with Fund on Securing better International
Capital Movements Data

I don't object to cooperation between the Fund and the Bank, but I still don't understand this division of capital between short-term and long-term. Does this make sense, or is this merely another division of policy?

ISF:prl

Mr. A. Kamarck

June 4, 1965

Irving S. Friedman

INDIA

I think you and I ought to sit down and chat about
India when you have chance.

Mr. A. Kamarck

June 4, 1965

Irving S. Friedman

Consultations

You will recall that from time to time we have talked about the desirability of countries having periodical consultations with the Bank on their economic situations, outlook, and policies. I believe that we should begin to take the necessary steps to set up the machinery for conduct of such consultations on a regular basis.

In addition to questions of the content of such consultations there are a number of administrative procedural questions. As a start could I have quickly from you a breakdown of the LDC's in the Bank under the following three categories:-

1. Countries for which annual consultations should be envisaged;
2. Countries for which bi-annual consultations should be envisaged;
3. Countries for which tri-annual consultations should be envisaged.

Needless to say such regular consultations do not eliminate the possibility of other consultations which may prove to be necessary. What we are looking for is a frame of reference and guise-post within which to begin the program.

Mr. Woods

Speak about role of Executive Board and make point that I don't think that it is possible to succeed in achievement of his objectives on the broadened role of the Bank unless the Bank is prepared to accept the practice that countries have an opportunity to consider the problems of other members, and to participate in the process of giving advice and influencing their economic policies. I believe the most practical way of doing this is a greater willingness to use the Executive Directors more regularly in considering countries' conditions, outlook and policies, otherwise the creditor countries will develop other instrumentalities for ~~the~~ doing this. This does not mean Board involvement or the day-to-day work in the Bank.

TO: His Excellency
M. P. A. Forthomme
Ambassador to the United Nations
Ministere des Affaires Etrangeres et du
Commerce Exterieur
2 rue Quatre Bras
Brussels 1, BELGIUM.

DRAFT
Irving S. Friedman/prl
June 3, 1965

Sir:

I gather from your Embassy here in Washington that you are interested in having comments to the document which was sent to me by Mr. Edgar Jones.

We have studied the document and would like to make the following brief comments:

We are very much in sympathy with the desire to increase the flow of private capital. We also appreciate the force of the argument that the payment of dividends may be a burden on the balance of payments of a developing country, even though it is highly desirable that such dividend payments be made and the transfer in foreign exchange permitted. As you are undoubtedly aware a number of various proposals have been made as to how the standings of the IBRD in private capital markets might be used to encourage a larger volume of capital flows to the less developed countries. It is, of course, difficult to give a firm judgment on how the use of the IBRD's borrowing authority for a particular purpose might affect its ability to borrow for other worthwhile purposes. We are giving close and continuous attention to this problem and will keep in mind the comments and suggestions you make in your proposal.

Since your paper helps to illuminate these difficult problems you may be assured that we will have occasion to refer to it repeatedly. If further thoughts occur to us on this matter we will be in touch with you. If by chance you are visiting Washington and are free to come into the Bank, I will be happy to have the chance to chat with you further about your proposal.

Yours respectfully,

Irving S. Friedman
The Economic Adviser to the President

Messrs. Kamarck and de Vries

June 3, 1965

Irving S. Friedman

Visit of Dr. Sen - re. World Food Program.

URGENT

I am afraid I have neglected this as it came in during my recent trip to Europe, and would appreciate a very quick reaction.

Mr. Husain

June 3, 1965

Irving S. Friedman

Economic Committee Meeting on Capital Requirements Study

Your work on and interest in the Capital Requirements Study has been brought to my attention, and I thought you would like to attend the Economic Committee meeting on it.

Attachment

PARIS : May 14, 1965

To: Files

From: Bimal Jalan

Subject: Mr. Friedman's talks with Ambassador Egidio Ortona in Rome, May 12, 1965

You explained the reorganization of the economic work of the Bank and talked about the various questions that were receiving serious consideration, e.g., UNCTAD, the Bank's capital requirements study, IDA replenishment. You briefly mentioned the approach you were taking with respect to the question of IDA replenishment -- that one should probably start by arriving at some judgments regarding the total needs of the developing countries for IDA assistance. Ambassador Ortona was interested and said that Italy had always been in favor of multilateral assistance because it stood to gain from the international bidding of aid-imports in Bank-financed projects. You said that you would want the Bank to be more helpful to developed countries in various ways -- for example, by issuing short-term bonds which the Central Banks in these countries could hold.

Washington, May 20, 1965

To: Files

From: Bimal Jalan

Subject: Talk with Ministry of Overseas Development people - May 19, 1965

Sir Alan Dudley, Mr. Mason, Mr. Marris, Mr. Streeten and Mr. Errock were present. You explained the methodology and the general conclusion of the Bank's study on capital requirements. They were all very interested and expressed a hope that the Bank would find it possible to make this study available to them for their own internal use. You said that at this stage the Bank would not rush to put the study in circulation even on a restricted basis, but that you would let some people from the Ministry see the study in Washington after it has been discussed by the Economic Committee.

Messrs. Rosen, Chadenet, Kamarck

June 2, 1965

Irving S. Friedman

EUROFINANCE

At the suggestion of Mr. Woods I saw this afternoon Mr. Marc Alexandre, Managing Director of Eurofinance, which is a research outfit in Paris with an international staff. It specializes in analysing individual corporations and general economic surveys. It provides both the regular service and accepts special assignments.

I have not had a chance to look at the attached material, but thought that I would send it around to you immediately just in case you find it useful to speak to Mr. Alexandre who will be in Washington until the end of this week. He is staying at the Sheraton Carlton.

I told him that we would look at his material carefully but could not say how useful it might be in different areas of the work of the Bank family. Mr. Alexandre seemed reliable and his outfit comes well recommended.

I also gather that the cost of the regular service is about \$30,000 per year, the cost of the so-called "Associated Banks" is \$50,000 per year.

To expedite this I have divided the material which Mr. Alexandre left into three parts and am sending it out simultaneously to the three of you.

Attachment.

June 2, 1965

My dear Monsignor Gremillion:

I would like to say how much I enjoyed meeting you. The work which you are doing sounds most exciting and worthwhile. If there is any way I can be of help, please call on me.

In any case I am looking forward to renewing our acquaintance and continuing our discussion.

Sincerely yours,

Irving S. Friedman

Monsignor Joseph Gremillion
Director, Socio-Economic Development
Catholic Relief Services
350 Fifth Avenue
New York 1, N.Y.

FERRAS
INTERBANK
BASLE

JUNE 2, 1965

LT

SWITZERLAND

REGRET UNABLE TO ATTEND JUNE MEETING STOP HOPE TO SEE
YOU SOON STOP REGARDS

FRIEDMAN
INTBAFRAD

Irving S. Friedman
Office of the President

June 1, 1965

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AUG 16 2023

PERSONAL

WBG ARCHIVES

Dear Ivar:

As always I found your letter of May 25 most stimulating. I find myself in agreement with most of what you say, and I think that it is deplorable that countries which are burdened by tremendous economic problems and subsist on what is really a subsistence standard of living for most of their people should indulge the luxury of armaments and war. As you are well aware the question arises as to how far an international institution can go in this matter. It is possible to express personal views and I guess the personal views of influential people may have some impact on actual events. However, is the world ready for these international institutions to act beyond the advisory stage? There is a genuine concern with this problem in the Bank and perhaps we may find some practical effective things that can be done.

You mentioned sending a line to Andre de Lattre. He will be going to India soon and staying for a few weeks, I believe from the 8th to the end of June, before returning to Washington. At the moment he is in Paris. His address in India will be: P. O. Box 416, New Delhi, India.

I know that you will be glad to learn that we are doing quite a lot of work on the problem of growing indebtedness. What would you recommend in this field? As you know I heartily agree with you on the impact of bilateral trade and payments agreements. The problem for the moment seems to be, however, that commitments made in good faith many years ago have now accumulated to the point where present Governments find it most hard to deal with them. It seems to have always been true in the post-war period - and I remember so many instances of this in practice - that countries were willing to gamble on the future if some immediate way of coping with an urgent problem could be found. Well the past has now caught up with us and we have the combination of the heritage of the past and the continuing present problems. We talk a good deal about liberalizing the terms for financial assistance to less developed countries but actually only little progress has been made. Again I believe that it is still very difficult to persuade people of the need to look far down the road as well as to cope with immediate problems. However, there is ferment in favor of change.

I am sorry to learn that you have had some trouble with your right eye. I am planning to be in Europe in the latter part of July, and if so would hope to be able to come and visit you again in Stockholm. I will be writing to you when I know more firmly whether I am going and when.

Mr. Ivar Rooth

- 2 -

June 1, 1965

I am looking forward very much to seeing you and Ingrid in the near future.

With warm regards from everybody,

Yours,

Mr. Ivar Rooth
Lidingo 3
Sweden

ISF:pr1

June 1, 1965

Dear Ray:

I am glad to learn that you will be coming through Washington. How about planning to spend the evening of June 15 with us?

Looking forward to seeing you and with kindest regards to Irene.

Yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. Raymond F. Mikesell
W. E. Miner Professor of Economics
University of Oregon
College of Liberal Arts
Eugene
Oregon

Mr. de Vries

May 28, 1965

Irving S. Friedman

Belgian "Plan"

Would you have any further comments on this? The Belgian Embassy has telephoned me on this that Ambassador Forthomme is still very much interested in the Bank's views.

Attachment

May 28, 1965

Dear M. Beyen:

Thank you for your invitation to participate in a discussion of capital movements and international monetary stability at the 15th Round Table on European Problems, to be held in Brussels on the 8th and 9th of June. I am sorry that I will be unable to attend personally, as I expect to be in Africa at the time.

We expect that the discussion will be of considerable interest to us and want to contribute to your studies. Accordingly, I am accepting your suggestion of sending a representative from the Bank. He will be Mr. John Hulley, who works with my Economic Adviser, Mr. Irving S. Friedman, on this subject. We look forward to receiving the program and related information.

Thank you for your kind wishes. Please accept mine, together with my hopes that the conference may produce results which will be of value to us all.

Sincerely yours,

George D. Woods
President

M. Johan W. Beyen
President
Association pour l'Etude des
Problemes de l'Europe
7, Rue Lincoln
Paris, 8^e
France
JHulley/ISFriedman/dm

cc: Mr. Hulley, Mr. Friedman

May 27, 1965

Dear Deane:

Your letter of May 25 received. The book of readings you are preparing sounds very interesting, and of course feel free to include my article on the International Monetary System.

Perhaps you could let me know when it is printed so that I could get a copy for myself.

Sincerely yours,

Irving S. Friedman

Mr. Deane Carson
Senior Economist
The Comptroller of the Currency
The Administrator of National Banks
U.S. Treasury
Washington : D.C.

May 27, 1965

Dear Charls:

Thanks for the invitation to the 91st Annual Convention of the ABA, to be held from October 3 to October 6, 1965, in Chicago.

I do plan to attend and have accordingly filled in the application form and sent it off.

Looking forward to seeing you,

Sincerely,

Irving S. Friedman

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

Mr. George D. Woods

May 26, 1965

Irving S. Friedman

Letter from Johan W. Beyen

I believe it would be worthwhile to attend this meeting. Both the subject and the people sound interesting. I would like to suggest John Halley to attend. He has been working with me on this subject and his conversational French is excellent.

Attachment

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PERSONAL

WBG ARCHIVES

May 26, 1965

Dear Giorgio:

I do want to thank you again for your delightful reception in Rome. It was particularly enjoyable to have Doria join us. You both looked splendid.

I have very much in mind our conversations at lunch and at dinner. The rest of my trip went well both in Paris and London. I am scheduled to be back in Europe in June but am trying to get unhooked since I should stay here and do some work, otherwise the summer may become increasingly more worrisome. However, I think I will have a little time in Europe in July. Needless to say if by any chance I am going to Rome I will get in touch with you.

Looking forward to seeing you in Washington and please persuade Doria to come with you.

With warm affection to you both,

Yours,

Mr. Giorgio Cigliana-Piazza
Vice President
Morgan Guaranty Trust Company
c/o, Grand Hotel
Rome
Italy

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WBG ARCHIVES

PERSONAL

May 26, 1965

My dear Governor:

I want to thank you again for the most pleasant lunch.

As you probably know I passed on to Mr. Woods the suggestion about investments in sterling securities. He is well disposed towards the idea and is glad to be helpful. However, I am sure that Maurice Parsons will be reporting to you on this in detail.

As always my visit to the Bank was the highlight of my European trip. I do appreciate very much the kindness and friendship shown to me in these visits.

With warm regards,

Sincerely yours,

Irving S. Friedman

The Rt. Hon. The Earl of Cromer, M.B.E.
Governor
Bank of England
London, E.C. 2
ENGLAND

ISF:prl

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AUG 16 2023

WBG ARCHIVES

PERSONAL

May 26, 1965

My dear Deputy Governor:

I want to thank you again for the very pleasant afternoon and evening at the Opera. It is the kind of experience that you remember long after the business reasons for visiting are forgotten. I do hope that the presence of a barbarian in a business suit did not weaken confidence in the Bank or sterling. I also hope that my wife and I will have an opportunity to reciprocate, although I am afraid we would be hard put to match this lovely occasion.

Hoping to see you soon,

Sincerely yours,

Irving S. Friedman

Mr. Leslie K. O'Brien
Deputy Governor
Bank of England
London E. C. 2
England

ISF:prl

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WBG ARCHIVES

PERSONAL

May 26, 1965

My dear Rupert:

I want to thank you again for the pleasant dinner and most interesting chat. I found the exchange of views very helpful, both in increasing my knowledge and clarifying my thinking. I do hope that we will have the opportunity to do this again.

I would be very glad if when you come to Washington you could let me know in advance so that we could fix some evening together.

With warm regards,

Sincerely yours,

Irving S. Friedman

Mr. Rupert Raw
Adviser to the Governors
of the Bank of England
Bank of England
London E. C. 2
ENGLAND

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WBG ARCHIVES

PERSONAL

May 26, 1965

Dear Merle:

I want to thank you again for the two lovely dinners and interesting and instructive conversation. As always I benefited greatly from our talks.

My visit to London was quite enjoyable. I stayed a little longer than expected because Cromer invited me to lunch and I thought that the proper thing was to stay, even though it meant a relatively brief postponement of my departure.

I have just been back for a few days and find myself swamped with things waiting on the desk. Mr. Woods is leaving for Africa the end of this week which, of course, means that a number of things have to be done on a more urgent basis. However, it is all interesting and I am learning a great deal so I am not complaining!

I do hope that I will have the opportunity to reciprocate your repeated kindnesses.

With warm regards,

Sincerely yours,

Irving S. Friedman

The Hon. H. Merle Cochran
Hotel Ritz
PARIS, France.

ISF:gr1

May 26, 1965

Dear Mr. Rainoni:

Thank you for your promptness in recommending Mr. Hadjiioannou. I will be glad to hear from him.

I would also like to say again how much I appreciated the chance of talking to you, and getting your views on the European situation. They were most helpful to me in my later talks.

Thanks again,

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. A. Rainoni
Manager
Monetary and Economic Department
Bank for International Settlements
BASLE
Switzerland

ISF:prl

Miss Carter

May 24, 1965

Daphne McGregor

Temporary Leave Replacement for Mrs. Lowe

Mrs. Lowe will be on annual leave from June 7 through Tuesday, June 15, 1965. It would be appreciated if temporary assistance could be made available during this period. Thank you.

Mr. Kamarek

May 20, 1965

Irving S. Friedman

Information on LDCs

I would like the following information for quick reference purposes and I wonder if you could have someone in the Economics Department put it together for me:

1. Total "gap" of LDCs
2. Total investment in LDCs (for latest available year)
 - (a) private sector
 - (b) public sector
3. Total foreign capital in LDCs
 - (a) private
 - (b) governmental
4. Total investment of developed countries
 - (a) private
 - (b) public
5. (a) Comparison of per capita gap trends between LDCs and developed countries
- (b) A chart on trends in per capita income in the major countries of the world
6. Comparison of rate of growth trends between LDCs and developed countries
7. i. Comparison of trends in world exports among
 - (a) total world
 - (b) LDCs
 - (c) developed countries
- ii. A chart showing the rate of growth of exports and imports of developing countries and developed countries
8. A chart on
 - (a) trends in the burden of indebtedness of developing countries
 - (b) amounts paid in dividends, amortization, etc.
9. A chart on price trends in typical developing countries

It would be useful if I could have the above early next week.

Mr. David Kochav

May 21, 1965

Bimal Jalan

Annual Report

The points relating to capital flows that Mr. Friedman would like to see emphasized in the Annual Report are:

(i) The wide difference between the figures for gross and net capital inflow into developing countries because of the increasing debt burden of developing countries.

(ii) All that is called "development finance" is not really so - a certain portion of it is unrelated to development, e.g., PL.480 or German export credit.

(iii) There is a shortfall in the per year commitment of aid compared to the need for it.

(iv) A considerable portion of the disbursed aid has not been well used. This increases the value of insisting on "performance" as in the case of the World Bank.

(v) Increasing need for concessional aid.

Mr. Friedman

May 21, 1965

Bimal Jalan

Annual Report

I have communicated to Mr. Kochav the main points which emerged from your discussions with people in Europe, especially those that might be helpful in preparing the final draft of the Annual Report. I mentioned the points that you would like the Bank Report to stress with regard to capital flows to developing countries, and have given him a copy of my notes on your impressions of Europe (to be treated as strictly confidential) and a summary of my own talks with the OECD people. Mr. Kochav feels very enthusiastic, especially since his own thinking has been more or less on the same lines as yours. He expects to have a draft ready next week, but would like a meeting with you before he gives it in for typing and circulation.

Files

Paris
May 13, 1965

Irving S. Friedman

Conversations with Governor Carli, Banca d'Italia.

I discussed with Governor Carli at some length the question of capital markets and movements, explaining our intentions with respect to the next Bank Annual Report. Governor Carli was most interested and approved of this activity by the Bank. I explained our general findings with respect to capital flows, particularly the growing importance of amortization, interest and dividend payments from the LDCs to the creditor countries and the corresponding relatively small transfer of real resources to the LDCs.

I discussed with Governor Carli on a purely personal and informal basis the possibility of the World Bank being helpful to the various central banks, particularly those in Europe, by having a wide variety of notes with differing maturities depending upon legal requirements which could be used as investments of reserves.. This could be an outgrowth of its present practices. Governor Carli suggested I first discuss this with Dr. Ranalli.

I discussed this matter at some length with Dr. Ranalli who is the Director General of the Banca d'Italia in charge of foreign finance. He was very enthusiastic. He said there was of course no problem with small amounts, such as \$10 million. However, he thought such investments would also be interesting to the Banca d'Italia to the extent of \$100 million, and guessed that other European central banks would also be interested in these magnitudes. He felt that the central banks would find this useful from their own point of view and would also be pleased to make some contribution to the development. He indicated that it would be necessary for the notes to be "mobilizable" at any time if they were to be eligible for investment by the Banca d'Italia. On this assumption, it did not matter what the maturities dates of the notes were. The preference would be for notes denominated in dollars. He felt that this would involve no practical risk for the World Bank since, as a matter of fact, if there were need to use reserves, the Banca d'Italia would first use its deposits with the Federal Reserve Bank of New York and then its holdings of U.S. Treasury bills which are quite extensive, before using the special investments in IBRD notes. It was therefore most unlikely that such investments would not be held to maturity.

Subsequently I had a conversation with Governor Carli who said that he felt that, as a matter of principle, central banks should hold their reserves with other central banks. In the case of the Banca d'Italia, this meant that he favored holding all of their foreign exchange other than gold as deposits with the Federal Reserve Bank of New York; in this way it was possible for the U.S. monetary authorities to react appropriately to developments in their balance of payments. Thus they could choose to monetize any inflow of funds or sterilize them if they so wished. In response to my query with respect to Treasury bills, he said that he felt that the Banca d'Italia should not hold U.S. Treasury bills, except to the extent advised by the Federal Reserve Bank, although he agreed that in effect they were the same as holding any special issue of IBRD notes. I then asked whether this would apply to existing holdings of reserves or only to changes. He said that he had not quite thought of this point but appreciated that his point of view really applied to changes and not holdings.

May 13, 1965

But he still affirmed his principle. I thanked him and stressed again the personal nature of this suggestion.

I later discussed this point with Mr. Ghiardi, the U. S. Treasury representative in Rome, who said that this reflected Governor Carli's view on the holding of dollar reserves. Since the beginning of the year, Governor Carli had been most eager to show that he had full confidence in the U.S. dollar, and that he believed that central banks should cooperate fully in the management of their balance of payments. He felt that this was why Governor Carli had reacted as he did, but was more inclined to agree with Ranalli and myself that the magnitudes of any purchase of Bank notes would be very small compared to the holdings of Treasury bills or deposits. I noted that Governor Carli had made a point that, with respect to the Treasury bills, it was best for the Federal Reserve Bank of New York to decide whether or not their deposits should be so invested and in what amount. We both agreed that, even if Governor Carli's principle were to be accepted, in practice this could also be done with respect to any special issue by the World Bank. He felt that the U.S. authorities would have no objection to side investment by the Banca d'Italia of their dollar deposits, but, of course, reflected only a personal as well as preliminary view.

I also discussed with Dr. Ranalli whether the issue of special notes would affect them for long-term World Bank bonds. He said that he did not see any relation between them and that therefore the market would not be affected. The World Bank bonds were of course not purchased by central banks but other investors. I said that I agreed with him, but wanted to be certain of this point, since our primary concern had to be with maintaining the accessibility of the World Bank to the capital markets on a substantial and regular basis.

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DEC 08 2023

Mr. Friedman

WBG ARCHIVES

ROME: May 11, 1965

Bimal Jalan

Notes on Talks with European Central Bankers, Basle, May 8-10, 1965

Country Notes

In Germany, the recent steps to discourage imports of foreign capital have coincided in time with an investment boom and a severe shortage of domestic savings. Germans nevertheless are pleased with U.S. measures to meet the balance of payments deficit since they do not want growth in the German economy to be dependent on the inflow of foreign capital. But the prevailing investment boom has given rise to pressures to liberalize credit restraints with resultant fears of inflation. The hope is that if Germany can achieve internal equilibrium it would permit larger savings, thereby facilitating larger outflow of capital.

In France, there are signs of a business downturn and a consequent dampening of the inflationary pressure, so much so that the B.I.S. Annual Report this year is going to call for credit expansion in France. This is interesting in view of the fact that French officials have been attributing inflationary pressures in France to the U.S. balance of payments deficit.

In Italy, though there has been an increase in reserves and a considerable surplus in the balance of payments during the current year, there is still a fear of a cyclical downturn in economic activity. This has resulted in pressures to relax credit.

In the Netherlands, there is complaint about the inflationary impact of their balance of payments surplus which they regard as the counterpart of U.S. deficit. Governor Holthrop is therefore pleased that the U.S. is taking corrective measures.

General Impressions

1. From your talks with Mr. Milton Gilbert of B.I.S., it was your feeling that the B.I.S. Annual Report is unlikely to stress the theme of inflation in Europe.

2. Mr. Rainoni of B.I.S. was concerned about the problem of adjustment in Europe in the wake of U.S. corrective measures. He seemed to agree with you that countries in Europe would find it hard to find domestic financing if U.S. measures prove as successful as they are predicted to be. At present these countries are going to the Euro-dollar market which is being fed in large volumes by the Central Banks, for domestic financing. [This is confidential.] At present this is being done without either lowering interest rates or lowering reserves. The question which naturally arises is whether they would continue to feed the Euro-dollar market once these balance of payments is wiped out since this would then involve a decrease in their reserves? How far the European countries are willing to accommodate foreign firms would depend on their domestic inflationary pressures -- if their own situation is depressed they might allow foreign firms to raise finance internally. Another element in internal financing of foreign firms is the fact that most of the capital inflow from the U.S. has gone to faster growing sectors. This means

that domestic financing of these foreign firms would have to be at the expense of slower-growing industries (if savings are not increasing fast enough to cover the needs of all sectors), which the European countries would be opposed to on domestic policy grounds.

3. In Europe there is a great uncertainty as to the final outcome of U.S. measures and what it would mean for the European capital markets. If there is going to be a great demand for internal capital in Europe, the prospects for export of capital are that much reduced. Germans are happy about this possibility, and they would like to see the U.S. capital which has so far been going to Europe to be diverted to the less developed countries. They do, of course, recognize that if this were to be so, the U.S. deficit would continue--may be at a somewhat slower rate. [You felt that this might well mean a repetition of the present pattern--an increasing European surplus, now through triangular trade via the developing countries.]

4. Your general impression was that Europeans are generally pessimistic about the availability of loan capital in Europe. This is not due to limitations of capital markets but due to a lack of domestic savings. You felt that the Chapter in the Bank Annual Report should introduce the subject of availability of finance in Europe with an analysis of what was happening in Europe with respect to GNP, investment and saving, and then move on to a technical discussion of European capital markets.

5. You agreed with Mr. Gilbert, Governor Holthrop and others at the B.I.S. meeting that the main stress in the Bank analysis of current trends in capital movements should be to emphasize its "topey-turvy" character. There seems to have been no net inflow of capital to the LDCs as a group during the last year.

6. Mr. Rainoni agreed with you that the "second-wave effect" of American measures may well be a decline in dividends and remittances of American firms to the U.S. The "first-wave" effect is to decrease the commitments of American firms in Europe, but this may be outweighed by the "second-wave" effect.

Your conclusions from these talks are: (a) You could all agree that an increase in credit expansion in Europe after equilibrium has been achieved in the U.S. would mean a deficit in the European payments. The question is whether they would use their reserves to meet this deficit. The French and Italians are unlikely to favor a decrease in the reserves, but the Germans may not mind such a decrease; (b) Outflow of capital from the LDCs for amortization, dividends and interest plus the surplus of the oil producing countries may well be more than the gross inflow of capital into the LDCs from the advanced countries. [This has to be checked.] Probably this is why the trade figures for the LDCs as a group in 1964 did not show a deficit. [The Bank Annual Report Chapter should deal with this problem. It should have a chronological summary of what is happening to the trade deficit of developing countries. Trends in the reserves of the LDCs over the past few years should also be checked.] The U.S. has been a net exporter of capital, but most of it has gone to Europe and not to LDCs. The policy problem is to encourage a net inflow of capital to LDCs. [This should be checked in Rome, Paris and London.] In analyzing trends in capital movement, it is more important to look into the structure of these movements than the volume of it. Only then one can explain why developed countries have been exporters of capital, but the developing countries as a group do not seem to have been net recipients of capital. It may well be that some of the LDCs have been accumulating reserves with an export surplus while inflow of funds from developed countries has gone mainly to meet the deficit of other developing countries.

GIORGIO CIGLIANA-PIAZZA
VICE PRESIDENT
MORGAN GUARANTY TRUST CO
C/O GRAND HOTEL
ROME

MAY 7, 1965

NLT

ITALY

UNABLE GET BOOKINGS GRAND HOTEL NOW CONFIRMED CAVALIERI HILTON

REGARDS

IRVING

Irving S. Friedman

Office of the President

Mr. Wishart

May 6, 1965

Irving S. Friedman

Economic Committee Documents

I believe Mr. Woods might find the attached documents of interest.

I believe it would be advisable to let Mr. Woods see the Economic Committee documents. In addition I will point out those which are of particular interest.

Mr. John C. Halley

May 5, 1965

Irving S. Friedman

I found the memorandum very interesting. Would it be possible for you to prepare very quickly and very briefly a note indicating the gist of Host-Madsen's article and the gist of your disagreement with him.

You could either combine the two memoranda, keep them as two separate ones, or make one for me to Woods attaching the one that you sent me. In any case I would like to transmit something on this to Mr. Woods.

Mr. Irving S. Friedman

May 5, 1965

Rudolf Hablutzel

U.K. Swedish Proposal; Meeting of May 3, 1965

1. Mr. Friedman outlined his thoughts on the proposal. Starting with reasonable expectations, he said that they should not be projected mechanically, neither with a self-contained "automatic" formula nor with any mathematical method of fitting a curve. Instead, the export projections should be based on detailed knowledge of individual markets, and established in a joint effort between the country and the Bank through its Economics Department. In each case it should be a combination of informed judgment, agreed upon by both parties.
2. Regarding invisible earnings, Mr. Macone pointed out that in some cases the earnings from services are not more difficult to forecast than merchandise exports, and they often represent a sizeable part of total earnings (Mexico: tourism, UAR: Suez Canal revenues). Also it was noted that the U.N. resolution was worded in such a way as would include invisible earnings in expectations of export proceeds "in appropriate cases". Accordingly, Mr. Friedman agreed to such inclusion.
3. The persistence of shortfalls he felt should be eliminated as a condition for compensatory assistance, in view particularly of the need to provide assistance promptly, and of the impossibility to ascertain, at an early enough stage, a degree of persistence sufficient to qualify IMF assistance as unsuitable. Instead of delineating the areas of jurisdiction for the IMF and the new scheme respectively on the basis of the prospective duration of the shortfall (persistence versus temporariness), it should be on the basis of the object pursued in granting assistance (development versus balance of payments stability). The scheme should be formulated in such a way as to make it unmistakably a source of development finance additional to the world's present flow of such finance. The developmental purpose of the scheme would be ensured mainly through the consultations by which a standing commitment for assistance would be initiated with each member country, rather than ad hoc at the time of occurrence of shortfalls through a judgment on their potential duration.
4. Coming to the problem of the revision of expectations, he said that projections should normally be made for a five year period at the time of the original consultation. The expression "rolling over" should be avoided. The initial consultations would be followed by periodic consultations, in the course of which the original export projections would be reviewed. Depending on circumstances, this review could be comprehensive and result in a revision of expectations; but in the latter case such revision would not necessarily imply a reduction in the country's

foreign exchange requirements for the remainder of the current five-year period. All factors would have to be considered at this occasion, including the implementation or otherwise of reasonable policies initially agreed upon, as well as the practicability of using IMF drawing rights. The latter could also be made the subject of an understanding arrived at during the initial consultation.

5. On the subject of automaticity, Mr. Friedman pointed out that the reason for the IMF scheme having become quasi-automatic had not been a general conviction on the part of the developing countries that compensatory financing should have to be automatic, but because of a dissatisfaction with procedural requirements for drawings in the higher tranches. A real need existed, however, for certainty, which notion combines a degree of discretion with a degree of automaticity, inasmuch as the only condition for compensatory assistance would be for the shortfall to have been caused by factors outside the country's control; that is, in spite of faithful adherence to agreed policies. Such policies would normally be considered as having been adhered to, unless notification had been given in writing. In other words, the country would always have the benefit of the doubt.

6. In this connection, Mr. Friedman anticipated one serious objection, namely, that IDA would enter an obligation to finance its own errors by either having subscribed to overly ambitious expectations, or having failed to anticipate adverse effects of impending or conceivable policy measures on exports. The answer to this would be that instead of the IDA staff it would be the Board who would be responsible for understandings reached with member countries on both their export projections and their fiscal, monetary, development and export policies, deemed commendable at the time of the initial consultations. This broadening of IDA's responsibility, as well as influence, over the developing countries' planning and growth efforts, was in his opinion a principal feature of the scheme, and one of the chief motives on our part for its establishment.

7. Coming to the subject of disruption, it was of course understood that the scheme's distinction would be its purpose of avoiding the disruption of development plans; but as with the duration of shortfalls, it was not practically possible at the time of their occurrence to judge on the likelihood of their becoming disruptive and to what extent. The initial consultation should be assumed to have established a conditional link between a certain volume of foreign exchange earnings, as projected, with a certain investment program, as planned. Any shortfall in the former would therefore set to the disruption of the latter. In other words, the endorsement of a conditional link from exchange earnings to the achievement of investment targets would be assumed *eo ipso* to imply the assertion of a positive link from a shortfall to disruption. On this basis a detailed definition of disruption would be obviated.

8. As far as eligibility for assistance was concerned, Mr. Friedman stated that countries would be excluded that were not willing to enter into the kind of consultations on programs and performance, including periodic reviews of policies, that would be built into the scheme. This would mean the exclusion of countries who do not at present have workable relations with the Bank, e.g., Indonesia, or the UAR. But on the other hand, countries with per capita income above \$250 would be eligible.

9. The form of assistance would normally be project aid, assuming the scheme would be operated by IDA. A larger percentage of local currency expenditures could be covered to provide free foreign exchange. Pre-financing of future projects could be another possibility for achieving speedy remedy to the balance of payments. As a last resort, import programs for equipment and materials could be financed. Rates of interest would be variable depending on a country's reasonable debt service capacity; they could be agreed upon during the initial consultations. In case of "blend" countries the weighted average interest rate could be used. Repayment might also be variable but on average could be about 20 years.

10. The size of the funds required for the scheme might be in the order of \$500 million for a period up to five years. Subscriptions could be in cash in five annual installments, or a part in cash and another part as a contingency fund. Regular IDA funds could be used in case the needs of the scheme would exceed its resources in the early years of its existence, to be replenished from subsequent contributions to the scheme. As a general feature, the scheme would provide a last resort after assistance from other sources (IMF, IBRD, bilateral aid) had been fully explored.

11. The question of a separate or single pot should be solved pragmatically, depending on which approach would promise more success in fund raising. One possibility would be to combine the next IDA replenishment with an IDA contingency amount to be earmarked for the compensatory scheme.

12. Mr. Friedman felt it was important to maintain the notion of a revolving fund for the scheme, as against a grant fund, even if the revolving period would be relatively long.

13. Mr. Sundrum felt that the scheme could be operated by the IMF. One could conceive of a way in which IDA would periodically consolidate outstanding obligations to the IMF in those cases and to such extent as it would ex post be ascertained that they had been incurred in conditions of export shortfalls concurring with those described in the U.N. resolution. The period of five years for which it was proposed to endorse export projections was also the maximum period for IMF drawings.

14. Mr. Friedman said that in practice it might well be possible for the IMF to carry out the financing, but it was outside the capacity of the IMF to enter into the consultative relationship for development which he thought was essential for the scheme. The staff of the IMF was

not equipped for reviewing development policies and for determining development import requirements; indeed it would be desirable to maintain the monetary and Central Bank approach of the IMF even if this gave at times occasion for conflict with development objectives. For the operation of developmental compensatory financing the IMF would have to base each individual operation on judgments made in the IERD. This might not be prohibitive, but a second point was that enlargement of IMF drawing facilities would by the nature of these facilities fail to constitute an enlargement of international development resources.

15. The question was raised as to how and by whom it would be decided that the country should resort to its gold, first credit or compensatory tranche, or should be given assistance under the new scheme. Mr. Friedman felt that this would amicably be settled between the IERD, the IMF and the country concerned, probably on the basis of judgments emanating from the IERD who carried the responsibility of developmental consultations. These, he said, would normally lead to initial agreement on the following points:

- (1) The structure, targets, size and overall strategy of the development plan,
- (2) Monetary, fiscal and administrative policies conducive to the attainment of such plan objectives,
- (3) Reasonable expectations for export earnings over five years and the policy measures necessary for their being reasonable,
- (4) Terms of assistance,
- (5) Schedule of sources for compensatory assistance in successive hypothetical stages of distress (IMF, etc.)

16. Mr. Gulhati observed that it would seem to be necessary in the initial consultations to spell out all policies, deemed part of reasonable performance, in considerable detail in order to permit quick action in case of a shortfall, because the amount of assistance would depend on the proportion of self-inflicted parts of a shortfall. The failure in performance would need to be quantified as against the factors beyond the country's control. He pointed out also that there were many countries that had no development plan, and his impression was that the scheme would be far from universal.

17. Mr. Friedman agreed that it would not be universal, but he thought that balance of payments projections could be made also if there was no formal plan. As to the quantification of policy misbehavior he took the view that this was going too far; he quoted examples from the history of the IMF where too much built-in precision and formalism tended to defeat the objective and resulted in a make-believe world.

18. He then asked Mr. Gulhati to write the second draft of the Report on the Proposal.

cc: Messrs. Frank
Gulhati
Masone
Scioli
Sundrum
Thalwitz

RHablutzal:ke

Messrs. Hablutzel, Schick, & Thalwitz

May 5, 1965

Irving S. Friedman

Compensatory Financing

As you know I have asked Mr. Gulhati to do a draft of our report on Compensatory Financing. I would appreciate very much if he could feel free to call on you to be of assistance if it is needed, as this will save much time.

cc: Messrs. Frank and Gulhati

May 5, 1965

Dear

I would be very happy to sponsor your joining the Club. The course is very enjoyable, and some facilities are now being built including tennis courts and a club house.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. Merlyn N. Trued
Assistant Secretary
U. S. Treasury
Main Building, Rm. 3434
Washington, D. C.

May 5, 1965

Dear Mike:

I was glad to learn that your trip to South America was worthwhile, and doubly glad to learn that you will be in Washington in June. As in the past, let me extend again an invitation to spend some time with us.

With respect to Adler's PhD thesis, I am asking Andy Kamarck to pursue this as I am on my way out to Europe, and suggesting that whoever does the answering reply directly to you.

With warmest regards,

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. Raymond F. Mikesell
W. E. Miner Professor of Economics
University of Oregon
College of Liberal Arts
Eugene
Oregon

ISF:pr1

MILLER
INTBAFRAD
PARIS

MAY 5, 1965

LT

FRANCE

PLAN TO ATTEND HIS MEETING ARRIVING BASLE MORNING MAY 8. STAYING
SCHWEITZERHOFF. ALSO PLAN TO BE IN ROME MAY 11, 12 CAVALIERI HILTON,
PARIS MAY 12 TO 15 ARRIVING ALITALIA FLIGHT 320 RITZ HOTEL. REGARDS

FRIEDMAN

Irving S. Friedman

Office of the President

FERRAS
INTERRANK
BASLE

MAY 5, 1965

LT

SWITZERLAND

EXPECT ARRIVE BASLE SATURDAY 8:30 AM SWISSAIR FLIGHT 140 STAYING
SCHWEITZERHOFF. WILL BE ACCOMPANIED BY STAFF MEMBER MR. HIMAL
JALAN AND HOPE HE WILL HAVE OPPORTUNITY TO MEET MEMBERS OF YOUR
ECONOMIC STAFF. REGARDS

FRIEDMAN

Irving S. Friedman

Office of the President

SIR ERIC ROLL
MINISTRY OF OVERSEAS DEVELOPMENT
LONDON

MAY 5, 1965

LT

ENGLAND

EXPECT TO BE IN LONDON FROM MAY 15 TO 19 STAYING AT CLARIDGE. ANY CHANCE
OF SEEING YOU SOCIALLY OVER WEEKEND. COULD YOU ALSO INFORM DOUGLAS ALLAN
OF MY PLANS. AM LEAVING MAY 7 FOR BASLE STAYING AT SCHWEITZERHOFF. REMARDS

FRIEDMAN

Irving S. Friedman

Office of the President

Mr. George D. Woods

May 4, 1965

Irving S. Friedman

IDA Replenishment

The purpose of this memorandum is to try to put down what I think are the main points that come out of the work and estimates of the Bank economists on capital requirements and IDA replenishment.

1. The need for capital imports by the developing countries is large and will continue to be large over the next 15 to 20 years. This need might grow even if the developing countries were to make no progress in growth per capita at all. The Bank capital requirements and IDA absorption studies, the AID and the academic studies, all come out with the same conclusion that the ability of the developing countries to absorb and use capital effectively has been increasing. The total flow of official financial resources (net of loan repayments) supplied by the developed to the developing countries has been running around \$6 billion a year. Our estimates of need for the 1966-70 period run 50 per cent or higher and these are lower than estimates made by others. At the same time there has now been enough experience in the postwar world to demonstrate that under the right conditions large injections of capital can get countries started on this process of rapid economic growth. This has been seen in countries like Japan, Taiwan, Israel, Greece.

Private investment cannot be counted on to do the job. Usually it can be counted on to flow in once the process of rapid growth has started, to keep it going and to accelerate it. This we have seen in countries like Japan, Mexico, Australia. It is the process and the prospect of further rapid growth which not only generates but attracts private investment.

2. At the same time that the need for capital from abroad and the capacity to utilize it effectively are growing and will grow, the relative financial ability of many developing countries to service debt is decreasing and, consequently, the need to get the additional capital on concessional terms has grown. If we want to accomplish more in the way of helping the developing countries and do it without putting impossible debt burdens on them the composition of the flow of capital to the developing countries has got to be changed in the direction of more concessional aid. About two-thirds of official aid (net of repayments) has been on concessional terms but the trend is for harder terms (largely due to hardening of U.S. aid).

3. Certainly everything that is done to increase the volume of concessional aid whether it is through bilateral agencies or regional institutions is helpful. But aside from the Fund for Special Operations of the Inter-American Development Bank (\$900 million for three years) and the Common Market Development Fund (\$730 million for five years) for its African associate members, there is considerable uncertainty as to whether there will be an appreciable increase in the volume of such aid becoming available from other sources in the next few years. The question is then how big should IDA be? At its present size, IDA represents about 5 per cent of the total volume of aid going to the developing countries. It is useful but it is small.

If we take the minimum estimate of increase in capital requirements of the developing countries as 50 per cent over the current official flow, or \$3 billion per year, and apply the past two-thirds ratio of aid on concessional terms, the increased need for IDA-type aid could be taken as roughly \$2 billion a year. This is also the estimate the Area Departments came up with on the basis of relaxed IDA criteria.

Even on present criteria, the developing countries could use effectively, over the next five years, around \$1 billion a year or more of IDA credits. The actual need for IDA as contrasted with what can be used effectively would, of course, depend on what was done through other channels or programs, particularly regional groups and bilateral aid programs.

With the simultaneous lending of around \$1 billion-\$1.5 billion a year by the Bank, the total contribution by the World Bank Group would be just between one-fifth and one-fourth of the developing countries' needs over the next five years. IDA would be about 10 per cent and the Bank 10-15 per cent of the total official aid, assuming this aid is increased by the magnitudes of our estimates. At this level of Bank/IDA assistance rate, we should be in a position to get a much more effective use of resources in the developing countries and be able to lay a base on which, over the following 15 to 20 years, should make it possible to move a large portion of the developing world into self-sustained growth. It would also leave room for expanding the activities of the regional financial organizations.

4. In considering the size of IDA we ask for, we should have as a frame of reference the current figures on the size of the world economy. The GNP of the developed countries is increasing at the rate of \$40 to \$50 billion a year. The GNP this year of the developed countries will be about \$160 billion higher than it was in 1960 when IDA was first conceived. The exports of the developed countries this year will be around \$40 billion higher than they were in 1960. The American GNP alone is growing each year by an amount equal to the total GNP of India or Brazil.

Mr. Kochav

May 3, 1965

Irving S. Friedman

Annual Report

Thank you for your memorandum of April 28 on the Annual Report. Could you do a similar review of the period before 1954, including whether they had general economic reviews or statements in the Annual Report. I believe they did in the early years.

Mr. Geoffrey M. Wilson

May 3, 1965

Irving S. Friedman

IDA Absorptive Capacity

Thank you for your comments of April 29, 1965 on my memorandum on the above subject to Mr. Woods. I agree with you that a good deal of the soft-financing required by less developed countries will have to come from sources other than IDA. But as I made clear in my memorandum, "the data were are intended to give a rough indication of the amount which IDA could undertake in each country if there was no limitation on its availability of funds, and did do not in any sense, represent a forecast of possible IDA operations in each country."

The other question that you raise, regarding the likely need for IDA funds per se - has been discussed in my memorandum of April 30, 1965, on "IDA Replenishment."

Files

April 26, 1965

Bimal Jalan

IDA Replenishment - Discussions of April 23, 1965

The following questions were discussed:

- (1) How big should the amount of IDA replenishment be
- (2) For how long
- (3) Should there be a change in the present list of donors and recipients
- (4) Is there an economic basis for determining the share of India and Pakistan in total IDA resources
- (5) Should the present IDA lending criteria be relaxed.

Messrs. Friedman, Avramovic, Kamarck, Frank, Kochav, Pereira Lira and Gulhati participated in the discussions.

On the question of the desired magnitude of IDA replenishment, Mr. Lira expressed himself in favor of something like trebling of its resources on the ground that this would bring the total net flow of resources to developing countries nearer to the UN target of 1 per cent of the GNP of the developed countries. That even such an increase won't be sufficient to cover the needs of developing countries could be easily demonstrated by the Bank capital requirements study. Mr. Kochav agreed with Mr. Lira that it was very difficult to come up with any particular figure for IDA replenishment purely on economic grounds, but provided a different measure for the amount of aid that advanced countries should be asked to provide. He was in favor of asking for 1 per cent of the increase in the GNP of advanced countries--this should yield \$400 million next year and an increasing amount thereafter. Mr. Frank also agreed with the approach, and added that a figure arrived at in this manner was much more comprehensible than an alternative figure arrived at with the aid of subtle economic models.

Mr. Avramovic drew attention to the statistical gap which existed between the OECD figures for inflow of resources to developing countries (amounting to some \$9 billion, including the Soviet Bloc) and the actual annual current account deficit of developing countries (amounting to \$5-6 billion) in the period 1960-62. Some of this discrepancy can be explained away in terms of capital flight or geographical coverage or differences in statistical methods of advanced and developing countries, but the problem still remained. This problem might raise difficulties in persuading the developed countries to accept the view that the present rate of capital flow to developing countries isn't enough since \$2-3 billion of it still remains unaccounted.

Mr. Friedman said that it was relatively easy to establish a case for IDA-type aid, given the projection regarding capital requirements and the growing indebtedness problem of the developing countries. But the question of how much of it should be channeled through IDA cannot be answered from this kind of analysis. For this one would have to look at the problem institutionally--and see how much IDA could handle effectively. For example, one could establish a strong economic case for significant increase in IDA resources, anything up to quadrupling, by looking at the demands that present and potential IDA countries are likely to make on IDA resources. Having said this one could use the

Kochav-Lira kind of argument to demonstrate that even such a significant increase will not come up to the UN target which has been accepted by the developed countries.

Mr. Gulhati said that in addition to the capital requirements study, various other ideas, like commodity projections, savings gap, etc. could be brought in to strengthen the case for IDA. Then the fact that ISA has had to ration its credit shows that resources haven't been enough to meet the increasing need for soft aid.

The discussion then moved on to the consideration of the next question-- whether there was any economic argument for a longer period of IDA replenishment than the present three years. Mr. Friedman felt that insofar as IDA money was tied to long-term project-financing there was a prima facie case for a longer period of replenishment in order to ensure efficiency in the use of its resources. Mr. Gulhati pointed out that an argument for extension may be double-edged if it commits IDA to a lower level of resources for a longer period. Mr. Avramovic was in favor of a three-year period mainly on the ground that the awareness of an increasing gap in the capacity to import and the need for imports of developing countries was growing, and the chances of getting a higher level of appropriation for IDA would be much greater three years from now. Mr. Kamarck suggested that perhaps a good compromise would be to get money for five years at a time, combined with the authority to go back for further replenishment after three years, should IDA's resources fall short. The period of IDA replenishment was necessarily linked with the amount of replenishment; smaller the amount, more often it would have to be replenished.

On item 3, Mr. Kamarck said that the Economics Department was at present working on this and a revised list should be ready shortly.

Questions 4 and 5 were then briefly touched upon and left open for further discussions. Justification for the present share of India and Pakistan in IDA resources was advanced in terms of their poverty, their vast population, and the economic necessity of making a minimum critical effort for development etc., but the question of finding an economic criterion for allocating IDA funds among developing countries still remained. The further question whether IDA's lending criteria should be relaxed depended largely on the amount of available resources IDA has. It also, of course, depended on whether IDA resources were to be used for some other purposes too, e.g., compensatory financing.

cc: Mr. Avramovic
Mr. Kamarck
Mr. Kochav
Mr. Pereira Lira
Mr. Frank

May 3, 1965.

Dear Ivar:

Thanks for your two letters of April 2 and 8, and the notes received today.

Your notes, as usual, were particularly interesting. I received from Tainsh the material you had mentioned on Persia and East Pakistan, and would like to meet him. He seemed to have a realistic approach to complex problems.

The Bank's interest in education is well known, and you have a good point in the need to get pupils in Africa. On going through the massive country reports distributed here it seems unbelievable that every conceivable point has not been covered.

We are pushing ahead on the various studies, and daylight seems to be visible now. My group have now all arrived, and are embarked on their various assignments with gratifying enthusiasm.

I enclose a copy of Mr. Woods's speech to ECOSOC and a copy of Dr. Sen's speech.

With warm regards to Ingrid and yourself,

Sincerely yours,

Irving S. Friedman

Mr. Ivar Rooth
Lidingo 3
Sweden

Mr. James E. Twining, Jr.

May 3, 1965

Irving S. Friedman

Dining Room Reservation - October 8, 1965

I have invited the Council of the Society for International Development to have their next meeting, on Friday, October 8, held in the Bank.

I would like to make this a luncheon combined with the meeting, and anticipate that 20 to 25 people will be present. Would it be possible to arrange for dining room space from 12:30 p.m. for about three hours? I assume Mr. Both will contact me about the mem. Thank you.

Mr. A. Kamarck

April 28, 1965

Irving S. Friedman

PALEKAR, Shreekant

May I suggest that you reconsider your decision on this applicant? As for myself I tend to be attracted by the fact that he is regarded as "impatient with views which are inadequately supported by evidence".

I appreciate that his record is not brilliant, but he sounds to me like he would be a good addition to a rather large staff and bring some special talents, like ability to marshal facts which could be well used.

ISF:prl

April 28, 1965

Dear Arnie:

Thanks for your letter of April 26 regarding Mr. Neibuhr.

We are reviewing his qualifications, and if there is a possibility of his employment here we will get in touch with him directly.

With regards,

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. Arnold H. Weiss
Assistant General Counsel
Inter-American Development Bank
Washington 25, D.C.

ISF:pr1

Mr. W. Schick

April 28, 1965

Irving S. Friedman

Article - Capital Markets in Europe

I understand that there has been a recent article by a staff member on Capital Markets in Europe. I would appreciate your summarizing and commenting on it.

ISF:prl

Mr. A. Kamarck

April 28, 1965

Irving S. Friedman

You might wish to consider this with others - perhaps someone in the Projects Department - whether we have any comments to make.

I note that the letter says that no acknowledgment is necessary. However, it might be just as well to acknowledge the letter for your signature or mine.

Attachment

Letter from Continental Oil Co. with McCollum's remarks made at Empire Club of Canada in Toronto.

Mr. J. D. Scott

April 28, 1965

Irving S. Friedman

Article for Bank-Fund Review

Thanks for your memorandum of April 19. I could not but feel a little sad at the thought of someone else doing an article for the Review on Consultations. For me it is like going to my daughter's wedding and have someone else give-away the Bride.

Thank you for your invitation to write something on the Bank's side. I am afraid that having worked on the Fund problems for 22 years my competency is going to be for many years more on the Fund side than on the Bank, but if, however, I manage to attain some competency on a Bank subject I will be glad to write on it.

ISF:prl

April 28, 1965

My dear Deputy Governor:

I am sorry to learn from your letter of April 12, 1965 that you have no suitably qualified officer to recommend to me at the present time. I know from past experience that you would not have reached this conclusion if there were such a person available. I can only express the hope that such a person might become available in the future. I am sure that he would find the work in the Bank most rewarding and bring back to Australia a valuable additional experience.

Thank you for your efforts on my behalf.

With warm regards,

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. J. G. Phillips
Deputy Governor
Reserve Bank of Australia
Martin Place
Sydney
Australia

April 28, 1965

My dear Governor Carli:

As you probably have heard from Siglienti I am hoping to come to Rome for May 11 and 12, if this is not too inconvenient to you. I would be coming from Basle on the night train.

I was looking forward to the opportunity to exchange views with you on some of the new work and problems in the Bank with which I am concerned. I am sure that I would profit greatly from such an exchange.

I am also hoping to be able to see Dr. Paolo Baffi and Ambassador Egidio Ortona. In order to avoid over-lapping appointments would it be possible for your secretary to arrange for me to see them if they are free. Needless to say if there are others that you or they believe I should also talk to I would be glad to do so.

I am enjoying my responsibilities in the Bank very much. They are not only new and challenging but I believe offer the opportunity to make a worthwhile contribution on some difficult and important problems.

With warm regards to you and my other friends in Rome,

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Dr. Guido Carli
Governor
Banca d'Italia
via Nazionale 91
Rome
Italy

ISF:prl

Mr. Irving S. Friedman

April 27, 1965

Isaiah Frank

ANNUAL REPORT

I suggest that we conceive of the Annual Report as consisting of three parts:

1. An analytic essay on some problem with which the World Bank is concerned - e.g. compensatory finance; planning; project evaluation; debt servicing; absorptive capacity; issues in the finance of infrastructure; etc.
2. A review of current problems in development finance facing the LDC's. Against a background of recent trends in total and per capita gnp, this section would analyze the internal and external financial problems of the LDC's bearing on their growth prospects.
3. A report on the Bank's operations. In addition to the usual statistics, this section would describe developments in the major capital markets affecting the Bank's borrowing and would also highlight any policy changes adopted or under consideration.

I shall try to sketch out an outline of the proposed Section 2 of the Report.

Mr. Kamarck

April 29, 1965

Irving S. Friedman

Staff

Yesterday I had a telephone call from Walter Salant of Brookings Institute. He highly recommended a young man by the name of Paul Armington, whom I believe at the moment is in Geneva. I told Walter to tell him to contact you on his return and would appreciate if you would follow this up.

April 27, 1965

Mr. Woods

Irving S. Friedman

Colombia

I would like to bring to your attention the attached Economic Committee paper on Colombia. I believe it is one of those that you would find worthwhile reading.

Attachment

Mr. Kochav

April 28, 1965

Irving S. Friedman

Annual Report

Please check the Annual Reports of the Bank since about 1954 to find out whether it is the custom of the Bank to have a chapter or sections dealing with proposals being placed before the Board of Governors or member countries for action.

I am particularly interested whether the Bank Annual Report ever discussed the original suggestion for the establishment of IDA or the replenishment of IDA.

Mr. Waide

April 27, 1965

Irving S. Friedman

CEYLON

I would appreciate if you would do a minute on yesterday's meeting on Ceylon. I noticed that you were taking notes.

April 27, 1965

Dear Mr. Scafuro:

Your letter of April 19, 1965 addressed to Mr. Woods has been referred to me as he is at present in Europe.

I am looking forward to reading your suggestion and you will be hearing further from us on this matter. Needless to say I will bring your letter and attachment to Mr. Woods's attention on his return.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. Francis X. Scafuro
Vice President - Business Relationships
Bank of America
41 Broad Street
New York 15, N.Y.

April 27, 1965

Dear Mr. Phillips:

I am sorry to learn from your letter of April 12, 1965, that you have no suitably qualified officer to recommend to me at the present time. I know from past experience that you would not have made such a recommendation if there were such a person available, so can only express the hope that such a person might become available in the future. I am sure that he would find the work in the Bank most rewarding and bring back to Australia a valuable additional experience.

Thank you for your efforts on my behalf.

With warm regards,

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. J.G. Phillips
Deputy Governor
Reserve Bank of Australia
Martin Place
Sydney
Australia

Mr. Leon
Mr. Jalan

April 26, 1965

Irving S. Friedman

IDA Absorptive Capacity

I want to thank you both for the extra effort on the
Absorptive Capacity memo. It was both good and in time.

APR 23 1965

(Cover note for Progress Report on Capital Requirements Study)

(not to be further circulated)

I am circulating herewith the first progress report on the Capital Requirements Study. Please regard this as a confidential document to be given no further circulation without prior clearance with me.

I intend to have the Economic Committee discuss this document when Mr. Avramovic returns from Nigeria at the end of ~~May~~ *JUNE*.

If there are any comments you wish to make in the meantime, please address them to Mr. Gulhati or me.

Irving S. Friedman

Mr. Kamarck
Mr. Leon

April 22, 1965

Irving S. Friedman

Economic Committee documents

It would be appreciated if you would please get my agreement to any final version of an Economic Committee paper before it is circulated, unless Mr. Kamarck decides this is not necessary.

APR 22 1965

Dear Mr. Tainsh:

Mr. Rooth had written me earlier about your expected letter and thank you for the two very interesting outlines on Persia and East Pakistan, which I have now received.

Simplifying a complex situation and putting it into action is mostly an agonizingly slow process, but I would be interested in hearing more of your ideas. When I next visit Mr. Rooth perhaps we can arrange a meeting.

Sincerely yours,

Irving S. Friedman

Mr. A. Ramsay Tainsh
Ostermalmsgatan 61
Stockholm 8
Sweden

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April 21, 1965

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WBG ARCHIVES

Irving S. Friedman

Conversation with Mr. Liefstinck

At lunch Mr. Liefstinck told me that Governor Horowitz was looking forward to coming to present his views to the Executive Board. He was disappointed that the Bank report was not more economic in character. I explained to Mr. Liefstinck the Bank's approach on this and that it had been hoped to have the economic discussion on the UK/Swedish proposal study.

He then said that he wished to tell me, on a completely confidential basis, of a suggestion he had made the day before to the Israeli Ambassador. The suggestion was with respect to a desalinization project in Israel. It would be very costly and it would not seem possible for Israel to service a loan of the amount needed for such a project. However, picking up the Horowitz idea, might it not be possible for certain creditor countries to provide funds to help Israel meet all or part of the interest payments on such a large loan. He asked for my reaction. I told him that of course this would require considerable thought but my first reaction was that it was an interesting idea worth further exploration. In a way it would make certain countries creditworthy for worthwhile projects which they would not otherwise be able to undertake. Much would depend on the kind of commitment the assisting countries would be prepared to undertake. Mr. Liefstinck stressed that he wished to keep this absolutely confidential and personal.

Mr. Liefstinck telephoned the next day to say that he was writing to the Israeli Ambassador setting forth his thoughts on this. He again stressed the personal and confidential nature of this suggestion.

DECLASSIFIED

Mr. George D. Woods

April 22, 1965

Irving S. Friedman

CONFIDENTIAL

IDA Absorptive Capacity : 1966-1970

since countries such as Italy, Sweden, Yugoslavia have not been included

1. In connection with the IDA replenishment exercise, the question has often been raised whether there is not a practical limitation on the project side to the amount of money that could be lent by the Bank/IDA to developing countries during the period 1966-1970. I sought the judgment of Area Departments on this question and circulated to them a brief questionnaire designed to elicit estimates regarding the money-volume of identifiable projects, which would meet Bank/IDA standards of appraisal, over the next five years. A discussion on the answers to this questionnaire was held at the Economic Committee, and after minor revisions, the attached table was produced.
2. I would like to emphasize the highly tentative character of the data in the table, and also the fact that the estimated figures for various countries differ very appreciably in their degree of reliability. Some are derived from actual feasibility studies of projects; at the opposite extreme are estimates based only on judgments regarding absorptive capacity in particular sectors of the various countries and the belief that they could produce projects during this period which would meet Bank and/or IDA standards. The data are intended to give a rough indication of the amounts which IDA could undertake in each country if there was no limitation on its availability of funds, and do not, in any sense, represent a forecast of possible IDA operations in each country. No major change in the standards of project performance was introduced in the data, but we have provided for the case in which IDA could relax some of its rationing criteria (e.g., the per capita income requirement).
3. The attached table has four sets of figures. The first column shows the Area Departments' estimates of total local and foreign exchange costs of projects identifiable on the basis of past procedures and meeting the usual Bank/IDA performance standard. The data in this column for African countries may be slightly at variance with the results of our exercise on capital requirements. Gross financial requirements shown in the latter study seem to be lower than the estimates of absorptive capacity presented in the attached table. This discrepancy may not be significant, but members of the Economic Committee felt that data for Africa may be too optimistic in relation to the assumption that technical assistance to augment and replace existing expatriate staff will be available.
4. Figures in the second column show the "possible" share of Bank/IDA financing in the total cost of projects. In most cases these have been derived by dividing the total cost in half--representing roughly the likely foreign exchange component of the projects. In some cases, however, particularly in Africa and British dependencies, the Bank/IDA share in total cost is shown to be larger than 50 per cent in order to include some local currency financing.

April 22, 1965

5. The third column indicates the Area Departments' judgment regarding the desirable level of IDA financing on grounds of projected indebtedness problems or of severe lack of domestic savings, in countries which are now considered eligible for IDA assistance on the basis of both low per capita income and lack of creditworthiness, but without reference to each country's performance, on the assumption that performance will be sufficiently satisfactory in all countries during the course of the next five years.
6. The fourth column indicates the possible level of IDA assistance both for countries which are eligible for IDA under present criteria and for countries which would become eligible if the present criteria (per capita income, lack of creditworthiness) were relaxed. Figures in this column for some countries are higher than corresponding figures appearing in the third column because of the relaxation of the creditworthiness criterion (e.g., Algeria, Morocco, Peru). Countries which are present in this column, but not in the third column, are included because relaxation of per capita income criterion would make them eligible for IDA assistance on grounds of present or prospective liquidity problems in their balance of payments arising from high debt burden (e.g., Argentina, Brazil, Chile, Colombia, Malaysia). In the latter case, it is assumed that IDA assistance would be preferred to an extension of grace periods on Bank loans. The possibility of massive debt rescheduling operations, with long periods of grace and repayment as an alternative solution is also assumed easy. The fact that some of the figures in this column are based on present payments difficulties would also explain why estimates for some countries, particularly in the Western Hemisphere, seem to be on the high side.
7. The table excludes certain countries in which political difficulties are such as to make it highly unlikely that they would become eligible for IDA assistance in the next five years (e.g., Congo (Leopoldville), Indonesia, Ruma, Viet-Nam, Laos). If some of these countries do become eligible, the totals of all columns would be considerably higher.
8. The final figures in the table show that for all countries the total cost of projects which meet Bank/IDA standards of appraisal is about \$32.4 billion (first column). The share of this total which could be financed by the Bank/IDA amounts to \$16.5 billion (second column). On the basis of the classification of countries considered eligible for IDA on present criteria, the total share of IDA would amount to \$7.4 billion, or about \$1.5 billion per annum (third column). On relaxed eligibility criteria, the total amount which IDA could finance is \$11.7 billion, or about \$2.3 billion per annum (fourth column).
9. In conclusion, I think that this exercise, based on the best judgment of our Departments, does provide us with a positive answer to the question whether IDA would have enough projects to absorb even a trebling or quadrupling of IDA resources.
10. Incidentally, the attached table also indicates that an increase in IDA operations, even to the extent suggested in it, would not adversely affect the prospective volume of IBRD lending. The total of the second column (showing possible Bank/IDA share) less the total of the third or fourth column

April 22, 1965

(showing the possible IDA share alone) would give the level of possible IBD financing during the period 1966-1970. This amounts to some \$5 or \$9 billion, depending on whether we take the IDA figure on present or relaxed criteria. This again is only a partial total for IBD lending, since countries such as Italy, Spain, Yugoslavia have not been included in the table.

Attachment

Absorptive Capacity for IDA/Bank Funds
as Estimated by the Area Departments:
1966 - 1970
 (In millions of U.S. Dollars)

	(1) Total cost of identifiable projects	(2) Possible Bank/IDA share	(3) Possible IDA share - on present criteria	(4) Possible IDA share * on relaxed criteria
<u>AFRICA 1/</u>	<u>4,220</u>	<u>2,672</u>	<u>1,212</u>	<u>1,517</u>
Algeria *	60	30	30	100
Morocco	360	180	180	100
Tunisia *	100	50	50	50
Senegal	25	25	15	15
Mauritania	55	50	25	25
Guinea *	70	55	30	30
Mali	35	30	20	20
Dahomey & Togo	60	50	50	50
Nigeria	810	405	200	200
Ghana *	55	45	25	25
Sierra Leone	80	50	25	25
Niger	30	25	15	15
Upper Volta	55	40	20	20
Liberia	105	80	30	30
Ivory Coast	105	50	20	20
East Africa	220	115	20	20
Zambia	190	80	20	20
Malawi	75	70	70	70
Sudan	160	170	20	20
Ethiopia	205	100	20	20
Rhodesia *	180	90	20	20
Somalia	40	35	15	15
Burundi	20	15	15	15
Cameroon	100	70	60	60
C.A.R.	25	20	20	20
Chad	30	25	20	20
Congo (B.)	115	70	30	30
Gabon	220	100	10	10
Malagasy Republic	115	65	25	25
Rwanda	20	15	15	15
<u>EUROPE and MIDDLE EAST 2/</u>	<u>1,275</u>	<u>615</u>	<u>605</u>	<u>615</u>
Benutoland	15	10	10	10
Botswana	15	10	10	10
British Guiana *	15	10	10	10
Fiji	15	10	10	10
Jordan	225	75	75	75
Mauritius	15	10	10	10
Suriname	20	10	10	10
Swaziland	20	10	10	10
Syria	100	50	50	50
Turkey	400	200	200	200
U.A.R. *	400	200	200	200
West Indies	15	10	10	10
Malta	20	10	*	10

	(1)	(2)	(3)	(4)
<u>FAR EAST</u>	<u>5,565</u>	<u>2,782</u>	<u>434</u>	<u>404</u>
Ceylon	165	82	82	82
Korea	550	275	275	275
Philippines	525	263	35	35
Thailand	660	330	42	42
Japan	2,250	1,125	-	-
Malaysia	500	250	-	50
New Zealand	375	187	-	-
Taiwan	540	270	-	-
<u>SOUTH ASIA 3/</u>	<u>2,750</u>	<u>4,950</u>	<u>4,950</u>	<u>4,950</u>
India	8,000	4,000	4,000	4,000
Pakistan	1,750	950	950	950
<u>WESTERN HEMISPHERE</u>	<u>10,818</u>	<u>5,428</u>	<u>285</u>	<u>4,162</u>
Argentina	760	380	-	380
Bolivia	40	20	20	20
Brazil	5,000	2,500	-	2,500
Chile	600	300	-	300
Colombia	973	487	-	487
Costa Rica	110	55	-	55
Dominican Republic	38	19	-	-
Ecuador	123	62	62	62
El Salvador	60	30	-	-
Guatemala	60	30	-	-
Haiti	10	5	5	5
Honduras	31	16	16	16
Jamaica	127	64	-	-
Mexico	1,175	588	-	-
Nicaragua	46	23	-	-
Panama	55	28	-	-
Paraguay	40	20	20	20
Peru	647	324	162	324
Trinidad & Tobago	83	42	-	-
Uruguay	150	75	-	-
Venezuela	720	360	-	-
<u>GRAND TOTAL:</u>	<u>32,358</u>	<u>16,467</u>	<u>7,486</u>	<u>11,735</u>

* Countries which are presently ineligible on grounds of either unsatisfactory performance -- including unsettled claims - or political uncertainties.

1/ The total cost of identifiable projects in Africa presupposes very considerable expenditures on technical assistance to augment and replace existing expatriate staff, a good many of whom will be departing in the 1964-70 period. The total possible Bank/IDA share in countries of this region has been adjusted to take into account estimates regarding private foreign investment in particular projects.

2/ Purely Bank countries in Europe and Middle East are excluded from the estimates. The estimates of the Bank/IDA share in British dependencies are subject to their joining the Bank and IDA following independence.

3/ The South Asia Department feels that in both Pakistan and India there is no practical project limitation to Bank/IDA lending to these countries. The figures show the amount of lending which Bank/IDA could undertake in these countries without encountering difficulties in finding suitable projects or programs for financing.

Mr. Kamarck

April 16, 1965

Irving S. Friedman

Dr. Krebs's Proposed Study - Impact of Exchange Transfer

I have discussed this thoroughly with Marty. I told him that I do think it is the kind of thing we ought to do but do not see how we can be doing it in the particular future. However, I want to make sure that you agree on my pessimistic forecast, and incidentally, do you also agree it is the kind of thing we ought to do? Since Marty is beginning to feel embarrassed by the delay in giving Dr. Krebs a substantive reply, I would appreciate if you could let me have the benefit of your quick reaction.

Attachment

April 20, 1965

Dear Mr. Abbai:

In January of this year I wrote to you care of the Harvard Center for International Affairs, at the suggestion of Mr. Dudley Seers. Since there had been no reply I followed with a letter to the Registrar, and trust that this address will reach you.

Mr. Seers has said that your knowledge and experience might be quite valuable to us in some of the work we are doing in the World Bank. If you would like, the Bank would be happy to have you come down and spend a day or two with us, at the Bank's expense of course, and discuss some of these matters of possible mutual interest.

Hoping to hear from you,

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. Belai Abbai
C-22 West Peabody Terrace
900 Memorial Drive
Cambridge
Massachusetts 02138

April 15, 1965

Dear Oscar:

Thanks for your note of April 8 and your suggestion of the name of Mrs. Anne Isikoff. I do have an Administrative Assistant already, but I am taking the liberty of passing on her name to others who are involved with work of particular interest to me. If she is really interested would she mind filling out the attached form.

With warm regards to Edna and yourself,

Sincerely,

Irving S. Friedman

Mr. Oscar Gass
Consulting Economist
1908 Que Street N. W.
Washington 9, D.C.

ISF:pr1

Mr. J. Burke Knapp

April 15, 1965

Irving S. Friedman

Apropos our discussion last night on Pakistan, assuming that the South Asia Department distribute its economic report on Pakistan by tomorrow, I am planning to have the Economic Committee meeting on April 22. I would have preferred, in view of the probable length of the report, to have the meeting on Tuesday April 27. (I am trying to hold all Economic Committee meetings on Tuesday afternoons - although, of course, not necessarily every Tuesday - in order to permit people to plan their schedules.)

If you think that our meeting on April 22 would not interfere with your Loan Committee meeting afterwards please let me know. If we do not hear otherwise from you in the next couple of days, I will assume that you prefer the April 22 meeting from your viewpoint.

ISF:prl

Mr. J. D.Scott

April 15, 1965

Irving S.Friedman

Fund/Bank Review

What would you think of an article on Consultations, with particular emphasis on their historical origin, and some on the philosophy which resulted in the procedures and techniques which were developed.

cc: Mr. G. Wilson

ISF:prl

April 15, 1965

Dear Hector:

Thanks for your kind note of April 8. Your suggestion to visit New England sometime is tempting. Along with these new duties and responsibilities there is the inevitable pressure to get things done, but I do hope to be able to accept your invitation in the not too distant future. I am finding the work of tremendous interest, challenging and rewarding.

With warm regards,

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. Hector Prud'homme
Assistant to the Chancellor
University of Hartford
200 Bloomfield Avenue
West Hartford 17
Conn.

ISF:prl

Mr. A. Kamarck

April 15, 1965

Irving S. Friedman

Economic Report - Brazil

I have agreed with Mr. Woods that the Brazilian Economic Report will go to the Board for discussion. I believe, however, that there should be some kind of introduction or additional covering paper, more along the lines of the Economic Committee paper. This paper could also include whether there are any outstanding disagreements with the Brazilian Government, and what their point of view is.

ISF:pr1

Mr. A. Kamarck

April 15, 1965

Irving S. Friedman

CEYLON

I have meant to have a meeting with Cargill, Goodman, Gilmartin, and you and I, on Ceylon. There is a great deal of work going on in the Fund as to what should be their ingredients of their stabilization program. I gather also there is concern here as to what our people regard as essential features of an economic program.

Thus far I have not had time to arrange the meetings. If you think it wise perhaps you could be talking to these people in the meantime.

ISF:prl

Mr. A. Kamarck

April 15, 1965

Irving S. Friedman

Pakistan Report.

I understand from Mr. Wilson that the Pakistan Report is to be circulated by May 1st. I would think that it was desirable to have a draft circulated by tomorrow, or over the weekend, together with a draft paper for the Economic Committee to consider.

We should also keep in mind to leave some time for the Loan Committee to meet afterwards. We should keep this in mind in thinking of how quickly we get out the Economic Committee paper. I am afraid that whoever is doing it must have it done within 24 hours after the meeting.

ISF:prl

Mr. Kamarck

April 15, 1965

Irving S. Friedman

GATT

Please be sure to inform Roger Anderson of what we
are doing in the GATT.

Mr. Kamarck

April 15, 1965

Irving S. Friedman

Preferences for Domestic Suppliers

I would like to speak to you about the attached memorandum.
It has not yet gone to Mr. Woods. It is also being shown to
Mr. Cope.

Attachment

APR 14 1965

Insert - page 10

I would hope that some day the World Bank group could meet all of its needs for capital through issuing its own securities. We are all aware of the difficulties of raising funds in capital markets today in the United States and in Europe. In the United States we have the necessary savings but the balance of payments situation has led the Administration to restrict Bank access to U.S. capital markets. As you probably know, the Bank is not allowed to borrow in any country without the permission of the governor for the Bank of that country. In the United States the Governor is the Secretary of the Treasury. I know that in restricting the Bank's access to U.S. capital markets there is no feeling of unfriendliness towards what the Bank does. This is important because it means that when the U.S. balance of payments position improves we can look forward to the time that the United States will permit larger access to its capital markets if the needs of the Bank so require at the time. In Europe there is a relative shortage of savings, as evidenced by continuation of inflationary pressures in a number of countries. Moreover, there are a number of practical difficulties in obtaining very large sums from such capital markets. European capital markets simply are not accustomed to dealing with the magnitudes which are common in the United States. We have gone recently to the European capital markets -- Germany and Switzerland [could add figures if so desired]. I look forward to the time when the Bank will be coming to European capital markets on a regular basis, say once a year, so that this source of development finance can be steadily improved.

We therefore follow with great interest the discussions which have been going on with respect to the international financial system. The Bank's operations are an important part of the functioning of this system. The

funds that we make available to the poorer less developed countries find their way back in the first stage to the exporting country -- usually an industrial country, but in the second stage and again in the third stage, are used to finance trade among the industrial countries. Similarly, funds provided to needy industrial countries help to pay for imports from the less developed. The international flow of funds is like a circle. It has no true beginning and no ending. It does not matter where you begin to travel on the circle or in what direction.

We hope, in the World Bank, that our activities will continue to make an important contribution to the maintenance of a viable international financial system and we also hope that countries in their other activities will do all they can to make possible the maintenance of a viable international financial system.

However, it would be unrealistic for us to plan on being able to do the work of the World Bank group through funds borrowed through private capital markets.

Mr. Kamarck, Mr. Cargill

April 14, 1965

Irving S. Friedman

Debt Servicing Burdens

Mr. Robert Barnett has telephoned about Bank research and any papers on debt servicing burdens of Malaysia, Thailand, Burma, Cambodia, South Viet Nam and Laos. Any information on North Viet Nam would also be welcome. What should I reply?

If one of you would prefer to reply yourself, by all means do so. Please, however, keep in mind that Bob is a personal friend and I wouldn't want him to think I could not find the time to call him back.

cc: Mr. Avramovic

9

Mr. George D. Woods

April 14, 1965

Messrs. Knapp, Alderfeld, Friedman

Preferences for Domestic Suppliers

Attached hereto is a note prepared by Messrs. Collier, Cope and Kamarck, summarizing the general consensus as they understood it which emerged from the Senior Staff discussion on the question of Preferences for Domestic Suppliers.

Aside from some points of detail, we do not consider this paper unfaithful to the majority of the attitudes so far expressed at the Senior Staff Meetings. However, we find ourselves in disagreement with the underlying approach of the paper, which seems to us to reflect an excessive swing of the pendulum in the direction of acceptance of protectionist measures. The effect of this approach is to require in most cases some special justification to be offered if local producers are to be subjected to foreign competition. The principle of the general desirability of competition is accepted but it becomes subordinated to the over-riding acceptance of protective practices.

Our own view is that protection should be accepted as a fact of life, and that, in some cases and within some margins, protection can serve to stimulate sound economic development in the developing countries. However, we believe that in these countries the principle of competition should be given primary emphasis. There is nothing in the experience of the Bank to indicate that the past policies which have limited protection to local producers to about 15 - 20% have significantly hampered the development or industrialization of its member countries. The actual figures used have been admittedly quite arbitrary and there have been cases of complaints, particularly from India and Pakistan. In these cases, however, the substantial over-valuation of the exchange rates probably explains why the margin of protection which the Bank accepts is not proving adequate. The real remedy lies in realistic exchange rates. Brazil has used multiple rates in the form of exchange surcharges to achieve a realistic import rate, which, in turn, makes a 15% protection margin acceptable to them.

No doubt our policies in this area should evolve with changing circumstances but we do not feel that our experience in the Bank has yet established any solid basis for a major change in our present policy. We therefore recommend that a new paper to the Board along the following lines be proposed. If you agree with this recommendation, this paper could probably be written rather quickly:

1. The paper would review the experience of the Bank with the present policies and answer the question - how have these policies worked, and what kind of problems have emerged.

2. Assuming that this review would indicate that for the most part the policies have worked satisfactorily and that complaints have been exceptional, it would suggest the continuation for the time being of the present practices, perhaps with some modifications in detail, such as a somewhat greater readiness to tolerate established tariff structures in the 20 - 25% bracket.
3. Any countries which feel that the present Bank practices are injurious to their development process would be invited to bring such cases specifically to the attention of the Bank. The Bank would indicate its readiness to consider such individual cases, including the reasons why such larger margins of protection are claimed to be necessary. If the Bank were convinced that the case made was reasonable, corresponding modifications would be made in its requirements with regard to procurement practices. (The Pakistanis have been told something along these lines but have never come up with any cases.)
4. In an attempt to develop better guide-lines for the future, the Bank would carry forward investigations of the problem of appropriate tariff policies for developing countries, both on a general level and on a country by country basis. Attention would be concentrated at the outset on the few countries (probably not more than a dozen or so) where industrial development has been carried to the point where this whole issue has become important. It would strive to reach more informed judgments on whether particular tariff structures were in accord with the development need of the country concerned and the anticipated changes in the structure of its economy. We might wish to invite the GATT to collaborate in such investigations, but this should be given further thought.

Files

April 14, 1965

Bimal Jalan

Bank and OECD - Meetings of April 9 and 13, 1965

The discussion on the relationship of the Bank to DAC working groups was resumed on April 9 and 13, 1965.

Mr. Karasz raised the question of the proper role of IBRD in DAC. There was a feeling in DAC that the Bank should be a more active participant in its deliberations, and that it should be used as a sounding board for the Bank's policy proposals, especially those affecting the creditor countries.

Mr. Friedman said that there were some difficulties involved in the Bank going to DAC with its policy proposals for discussion -- the first was the consequent obligation, following discussions, to incorporate the views of DAC committees in Bank proposals which might militate against the truly non-partisan character of Bank reports, and second, a decision to do so with respect to one group might involve obligations of similar relationship with other groups, like the Trade and Development Board. If the member countries looked upon DAC as the coordinating agency for their assistance activities, and therefore asked the Bank to go to DAC first for discussion of proposals affecting them, it would be a different matter; but for the Bank to take the initiative in this direction is perhaps not judicious. This, of course, does not diminish the desire of the Bank to be cooperative with DAC in exchanging information or suggestions. Nor does it rule out informal sounding of ideas on policy matters of common interest.

Continuing on the activities of various working parties within the DAC, Mr. Karasz said that while the Everts Group's main subject was to discuss how much more aid was needed, there was another group -- the Langley group -- which discussed the "performance" of aid-receiving countries with a view to arriving at a common ~~policy~~ creditors' judgment towards a particular developing country. This was interesting because this in some ways duplicated the purposes of the Bank's consultative groups. Then there is the Elson group which is concerned with the implementation of UNCTAD resolutions. There is one UNCTAD resolution which DAC has been particularly interested in. It asks for "a competent international body" to examine the development programs and prospects of developing countries in order to "determine the feasibility of growth higher than that experienced in the past" (Res. A.IV.2). Was the Bank prepared to be this "competent international body"?

Mr. Friedman said that it was important to remember that the Bank has been doing country studies for some time and intends to continue doing so -- now at a much larger scale for all member countries, irrespective of whether they were in the process of negotiating a loan or not. These reports would be made available to the DAC in the hope that they wouldn't find it necessary to make their own independent appraisals. But if they wanted to do this, nevertheless, there was nothing the Bank could or would want to do about it.

Agreeing to Mr. Karasz's suggestion that there should be more frequent contact between the Paris Office and Washington, Mr. Friedman said that it would be a good idea if some one from the Paris Office were to visit Washington every so often -- perhaps every three months. There was also the need for centralizing DAC correspondence in one office in Washington, and from now on all correspondence should be sent to Mr. Demuth in Development Services Department. It would also be helpful if Mr. Karasz could mention in his letters whose attention particular matters referred to in these letters required.

cc: Mr. Kamarok
Mr. Avramovic
Mr. Gordon
Mr. Pereira Lira
Mr. Karasz

Irving S. Friedman

ARGENTINA

Messrs. Alter and Knapp, and myself, discussed the Argentine situation with particular reference to the visit of Governor Elizalde to Washington, and the CIAP meeting on Argentina. It was agreed as follows:

1. The Fund should decide for itself what standards it should have for a stabilization program. If they felt that the present economic and financial objectives of the Argentine Government were not sufficient for a stabilization program they should so inform Governor Elizalde. Moreover, if they felt this was desirable they should so inform the coming meeting of CIAP. The Bank would not regard this as embarrassing for its own position. The Bank had not said that its agreed program with Argentina was one of stabilization but rather that if it was carried through as promised, or outlined, the Bank could consider new lending in Argentina during the latter part of 1965 for long-term development purposes.
2. If Mr. Schweitzer were to ask the advice of Mr. Woods as to what the Bank thought the Fund should do, the Bank would indicate what is said in paragraph 1 above, but could also go on to say that in its opinion some short-term financing assistance from the Fund would be helpful in achieving a better transition while the debt rescheduling was still in process. The Bank would make it clear that it was not urging the Fund to do this, but that this was its technical view of the situation. It would be clear that this Fund drawing would not be in support of a stabilization program, but rather a form of short-term balance of payments assistance rendered by the Fund. The Fund might very well take the attitude that it did not feel that it was wise to engage in such financial transactions without a program that it could regard as a stabilization program. The Bank would not take any exception to this attitude since it regards it as a matter of Fund business and decision.
3. The Bank would make clear that it did not regard itself as having a fundamental difference of opinion with the Fund. It had a similar viewpoint on the need for a realistic exchange rate, although there might not be a complete concurrence on how much devaluation was necessary at this time. On other points the apparent differences were principally due to differences in responsibilities. The Bank, therefore, would not object to have the Fund indicate to the CIAP what the Fund felt were its views, while the Bank representatives would feel free to explain the background of the Bank's views.

April 13, 1965

4. It was not felt desirable for the Bank to approach the Managing Director of the Fund before his meeting with Governor Elisalde, but rather to await the outcome of that meeting. However, it was felt desirable to inform Mr. Woods of our common attitude on this in case he was telephoned by Mr. Schweitzer, or in preparation for his own discussion with Governor Elisalde. It was agreed that in the meantime Mr. Alter would be guided by the above in his discussions with Mr. del Canto in anticipation of the CIAP meeting.

ISF:prl

Copies: Messrs. Woods
Knapp
Alter
Friedman

Mr. Twining

April 13, 1965

Irving S. Friedman

Office Space

It would be appreciated if the office space originally intended for Mr. Meenai be made available for Mr. Nespoulous-Neuville. I have already spoken to Mr. Nespoulous-Neuville about this.

cc: Mr. Eschenberg

April 13, 1965

Dear Professor Balassa:

Thank you for your letter of April 9 and the copy of your CEMLA lectures. I am sure they will be of interest and will circulate them among my colleagues.

Looking forward to hearing from you on your return from Europe.

Sincerely yours,

Irving S. Friedman

Professor Bela Balassa
Associate Professor of Economics
Yale University
New Haven
Connecticut

Mr. Barend de Vries

April 13, 1965

Irving S. Friedman

Memorandum of Understanding on Brazilian Economic Policy and Financing
Program

Reference your memorandum of April 8 on Brazil. I assume that I will be receiving shortly from someone, presumably Mr. Alter, the transmission of this document as we had agreed.

April 8, 1965

My dear Amjad:

I am happy to add my congratulations to the others on your election to be Chairman of the Trade and Development Board. I need not tell you that if there is any way that I can be of help please call on me.

With best wishes,

Sincerely yours,

Irving S. Friedman

Sydd Amjad Ali
Pakistan House
New York
New York

ISF:pr1

Mr, George D. Woods

April 8, 1965

Irving S. Friedman

Proposed Change in Method of Estimating
U. S. Balance of Payments

I believe you will find the attached memorandum of interest.
Incidentally, I agree with Halley's conclusions.

ISF:prl

Files

April 9, 1965

Simal Jalan

Bank and OECD - Meeting of April 7, 1965

The meeting discussed the question of the relationship of the Bank to various DAC Working Parties which were discussing topics such as indebtedness, terms of aid, and evaluation of the country development programs. Messrs. Friedman, Avramovic, Kamarek, Gordon, Karasz and Pereira Lira attended. The list of subjects mentioned in Mr. Karasz's memo of April 6, 1965 to Mr. Gordon served as the agenda for the meeting.

Mr. Karasz said that DAC has shown considerable interest in Bank country reports and would like to receive them on a regular basis. Also, they wanted to know if it would be possible for them to receive periodically the updated information on indebtedness position of developing countries. Mr. Friedman said that the Bank was in the process of changing its document-distribution policy, and would certainly make its country reports available to DAC. The only question was to decide whether the Bank reports should be so written as to include subjects which DAC was specifically interested in, and thus obviate the necessity of DAC undertaking country studies in depth on its own. It was agreed that Mr. Karasz should ask the interested DAC working parties about the sort of information they would like to see in the Bank report; if agreeable to the Bank, efforts would be made to include such information in the country reports.

It was also agreed that the Bank would be prepared to let DAC have the revised indebtedness data periodically. Mr. Kamarek said that this data was being computerised, and though it may take some time before the updating of information was put on regular periodic basis, DAC could certainly look to the Bank for information in this field.

On the question of supplier credits, Mr. Karasz said that a committee chaired by the Secretary-General of the OECD was at present discussing a scheme presented by Mr. Boonstra of the Netherlands. The scheme consists of limiting the maximum period of supplier credits to ten years, and the minimum period of aid to more than 15 years. The OECD was, however, expecting the Bank to come out with a study on this question--and soon.

Mr. Friedman emphasized that the purpose of the Bank study on supplier credits was primarily to provide a basis for a mutually agreeable policy between creditors and debtors, and he therefore wanted to be sure that when the Bank study comes out, it would have some impact on policy. This obviously would not be possible if the creditor countries, who form the membership of the OECD, were to agree on a common policy towards supplier credits in advance of the Bank study. Following the UNCTAD resolution, the Bank's present schedule was to complete this study by the end of this year; if, however, interest in Europe in this subject has accelerated more rapidly than envisaged six months ago, it would be possible for the Bank to accelerate its study too and come up with some proposals that it would like creditor countries to consider before a decision is reached on the subject.

Mr. Karasz did not expect that any common agreement would emerge from the present discussions of the OECD; and besides, the Boonstra scheme was very narrow, representing only one view, among many, within the creditor countries. Mr. Karasz felt that the Bank should stick to its present time schedule and make a thorough study of the proposal which would take into account both the debtor and creditor sides of the question.

With regard to the European position on rescheduling of debt, Mr. Karasz said that the French and, perhaps, the Germans, were for "clubs"; but the smaller European nations were against the idea because of their weak bargaining position. The British are against "clubs" because they felt that nothing constructive on this problem of indebtedness comes out of these "clubs" apart from a consolidation of outstanding debts. As for the Bank, Mr. Friedman explained that at present the policy was to consider the problem of rescheduling of debts only when the creditors and debtors asked for it. But there was also a group within the Bank which believed that the Bank should take an independent initiative in calling debt conferences rather than waiting for the creditors and debtors to ask for it. Mr. Karasz said that the danger in the latter procedure was that the Bank might lose the status of "preferred creditor", and may be asked to reschedule a troubled borrower's debts by itself.

cc: Mr. Avramovic
Mr. Karasz
Mr. Kemarok
Mr. Gordon
Mr. Pereira Lima

Mr. Twining

April 8, 1965

Irving S. Friedman

Office Space

Apropos our discussion on space I would also appreciate if you could find room for Mr. Halley either in the Economic Department or on the 10th floor near the others.

ECONOMIC REPORTS ON MEMBER COUNTRIES 1963, 1964

AFRICA

1963
Algeria
Ethiopia
Ivory Coast
Liberia
Morocco
Senegal
Sudan
Tanganyika
Togo
Tunisia

1964
Algeria
Cameroon
Congo
(Leopoldville)
Dahomey
Gabon
Guinea
Kenya
Mauritania
Niger

Nigeria
Rhodesia
Sierra Leone
Somalia
Tunisia
Uganda
Upper Volta
Zambia

EUROPE & MIDDLE EAST

Cyprus
Denmark
Iraq
Jordan
Malta
Mauritius
Norway
Portugal
Spain
Syrian Arab Republic
United Arab Republic
Yugoslavia

Finland
Italy
Basutoland
Bechuanaland
Kuwait

FAR EAST

China
Korea
Laos
Malaya
Japan
Singapore
Thailand

Ceylon
China
Japan
Korea
Malaysia
Philippines
Thailand

SOUTH ASIA

Afghanistan
India
Pakistan

Iran
Nepal
Pakistan

WESTERN HEMISPHERE

Chile
Bolivia
Colombia
Costa Rica
Dominican Republic
Ecuador
Jamaica
Paraguay
Venezuela

Argentina
Bolivia
Colombia
Ecuador
El Salvador
Honduras
Mexico
Nicaragua
Trinidad/Tobago
Uruguay

TOTAL REPORTS:

41

42

Mr. A. Kamarck

April 6, 1965

Irving S. Friedman

Mr. Leon's memorandum of April 2 on Distribution and
Number of copies of Economic Reports

I assume that Leon's memorandum of April 2 is an interim arrangement as it says. I don't think that we would want the Economic Reports circulated this way once we had established the Economic Committee Secretariat.

Incidentally, what's happened on the choice of a Secretary?

ISF:prl

cc: Mr. P. Leon

Mr. W. Schick

April 6, 1965

Irving S. Friedman

I am finding your press notes of great interest and help.
May I suggest that the source and date be indicated in each case.

ISF:prl

April 6, 1965

Dear Edgar:

Thank you for sending me a copy of your article on "The Dollar and the U. S. Balance of Payments". I know that it will be most useful to read.

With warm regards,

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. Edgar Plan
Financial Counselor
Austrian Embassy
2343 Mass. Avenue N.W.
Washington, D.C.

ISF:pr1

Mr. George D. Woods

April 6, 1965

Irving S. Friedman

Consultative Group in Korea

The other day Mr. Poats, the Assistant Administrator for the Far East, telephoned me. He said that he was calling to solicit support for the proposal for the Consultative Group in Korea. I explained what we were doing, and who had responsibility for this work in the Bank.

As a result of our conversation it became clear that he knew of Mr. Bell's conversation with you on this matter but was not quite certain what Mr. Bell had told you, including whether Mr. Bell had given you details of the suggestion.

I think you might find the attached memorandum of interest. Pending your reactions I am circulating this memorandum and its attachment only to Mr. Cargill. Among other things this proposal indicates the kinds of economic material which would have to be supplied for various coordinating arrangements.

cc. Mr. Cargill

ISF:prl

April 6, 1965

Dear Mr. Poats:

Thank you for your letter of April 2,
and its attachments. This matter is being given
attention and we will be in touch with you shortly.

With warm regards,

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. Rutherford M. Poats
Assistant Administrator - Far East
Department of State
Agency for International Development
Washington 25, D.C.

ISF:prl

Mr. A. Kamarck

April 6, 1965

Irving S. Friedman

Fund and Bank Review

Have you seen this? It doesn't sound particularly impressive at least from the viewpoint of Bank contribution.

Please note the contribution expected from the Fund on Fiscal Affairs and Economic Development and Financial Policy and Economic Development. I would rather have hoped that this was the sort of thing that Bank people would be contributing. However, I would not object to the Fund doing it, although disappointed that the Bank is not.

ISF:PRL

Scott's office are sending another copy.

April 6, 1965

My dear Shenoy:

Thank you for your letter of March 26.
As always I read of things you write with great
interest.

I do hope to have the pleasure of seeing
you again if and when I have the opportunity to
visit India, or you come to Washington.

With warm regards,

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. B. R. Shenoy
Director
University School of Social Sciences
Gujarat University
Ahmedabad 9
Bombay
India

IAF:pr1

April 2, 1965

Dear Mr. Secretary:

May I join the many others in extending my congratulations to you. It must be a source of great personal satisfaction to have this testimony of the confidence which our country has in you. We are all aware of the great burdens which high public office places on its holders, but I am sure that you will agree that in a democracy there is no more tangible evidence of the regard which the public has for a person.

I hope you won't mind my saying that after having experienced a series of Secretaries referred to as, Henry, John, George, Bob, and Doug, it's awfully nice to have someone who is, in informal conversation, referred to as "Joe".

If in any way I can be of help to you or members of your staff I would be terribly pleased to be called on.

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

The Honorable Henry H. Fowler
Secretary
United States Treasury
1500 Pennsylvania Ave. N.W.
Washington, D.C.

ISF:prl

Treasurers

April 5, 1965

Irving S. Friedman

Expenses - Mr. Bela Balassa

It would be appreciated if the attached Statement of Expenses on behalf of Professor Bela Balassa could be expedited.

He came down to Washington at my invitation for an interview.

Attachment

April 2, 1965

Dear Mr. Secretary:

May I join the many others in extending my congratulations to you. It must be a source of great personal satisfaction to have this testimony of the confidence which our country has in you. We are all aware of the great burdens which high public office places on its holders, but I am sure that you will agree in a democracy there is no more tangible confidence of the regard which the public has for the person.

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If in any way I can be of help to you or members of your staff I would be terribly pleased to be called on.

Sincerely yours

Irving S. Friedman
The Economic Adviser to the President

The Honorable Henry H. Fowler
Secretary
United States Treasury
1500 Pennsylvania Ave. N. W.
Washington, D.C.

ISF:prl

April 2, 1965

My dear Meenai:

Thank you for your warm letter of March 29.

I do hope that the crisis in your parents' health is now over and wish them the quickest possible recovery.

I will look forward to hearing from you when the health of your parents becomes clearer. In the meantime I will continue to assume that whenever convenient to you, you will be joining our staff.

With warm regards,

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

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

ISF:prl

cc: Mr. Eschenberg with copy of incoming letter

Mr. Michael L. Lejeune

April 2, 1965

Irving S. Friedman

Society for International Development

I have received a copy of the letter that Andrew Rice of SID sent to you on March 31. Perhaps as Treasurer of the organization I may be involved in a conflict of interest positions, but I will, nevertheless, take the liberty of saying that I believe the SID is worthy of continued support.

ISF:prl

April 1, 1965

Dear Mr. Kaplan:

I read with interest the George Washington University Press Release announcing your undertaking to do a study of U.S. foreign aid programs. The University was lucky to be able to get someone with your experience to do this for them.

If I can be of any help please call on me. Perhaps we can have lunch together and talk about what you plan to do.

With kind regards,

Sincerely yours,

Irving S. Friedman
The Economic Adviser to the President

Mr. Jacob J. Kaplan
The George Washington University
Policy Studies Program in Science
and Technology
1750 Pennsylvania Avenue, N.W.
Washington : D.C.

(Press release thru University's Public Relations FE 8-4995)

Messrs. Avramovic, Kamarck, Kochav, Nespoulous-
Neuville, Pereira Lira, Jalan
Irving S. Friedman

April 1, 1965

Assignments

I would appreciate very much if you were to send a note to Miss McGregor whenever I have asked you to do something for me. I believe this will help us in coordinating the work and also may be used as a quick reference for what other people are doing.

cc: Mr. Gulhati
Mr. Hablutzel
Mr. Hulley
Mr. Schick
Mr. Sciolli
Mr. Thalwitz

Files

April 1, 1965

Bimal Jalan

Notes on Meeting of March 30, 1965

Messrs. Avramovic, Kamarck, Kochav and Pereira Lira attended.

Mr. Friedman gave a progress report on various studies being undertaken by the Bank--(1) Compensatory financing: a rough draft of most chapters is in...a complete draft of the study should be ready by the end of March...haven't yet reached a decision on the form of financing, whether it should be separate or related to IDA...haven't seriously considered the question of relations with the Fund. (2) IDA replenishment: the problem here is twofold (a) how much to ask for and (b) what is the basis of distribution of burden among nations. Capital Requirements study should help on (a). On (b), the rule which determines the American share to be 40 per cent in IDA replenishment ought to go. As long as the attitude of other countries is helpful, it is all right, but given the present attitudes of the French and Germans this rule is unlikely to lead to any substantial increase in IDA. (3) Annual Report: Mr. Kochav promised a draft by April 15. (4) Suppliers Credits: Mr. Nespoulous-Neuville was looking after the European side of the problem. Mr. Lira was concerned with the problem from recipient countries point of view. Mr. Lira agreed to deal with the Spanish proposal as well.

Apart from the above, Mr. Friedman felt that the Bank should also undertake the following: (i) Development in capital markets in Europe; (ii) Developments in U.S. balance of payments; (iii) Periodic contacts and consultation with all member countries. It is vital that the Bank should be in touch with all its countries at all times, irrespective of whether a loan to a particular country was being considered or not. There was also an urgent need for systematizing the various area departments' consultations with member countries.

Mr. Avramovic on the Capital requirements study: Most figures used are unreliable or invented...the big difficulty is in deciding upon a uniform standard for terms of borrowing....area departments have used various terms....other assumptions are not uniform.

But for whatever it is worth, the picture looks something like this:

For the countries in the sample (covering about 65%-70% of developing countries' total deficits), the current account deficit is likely to increase from an average of about \$4 billion in 1959-63 to \$7.1 billion in 1966. This figure is exclusive of amortization payments and is based on the assumptions of (i) higher rates of growth than in previous years; (ii) a favorable capital output ratio (e.g., 2.1 for India); (iii) optimistic projections regarding the rate of growth of exports.

The factual information contained in this type of analysis is very weak, a more convincing exercise for the purposes of IDA replenishment would be to ask the area departments to come up with estimates of the demand for IDA type of loans for countries in their areas. This, together with detailed analysis of the capital requirements for India and Pakistan would provide a reasonable picture of the likely demand for IDA over a number of years.